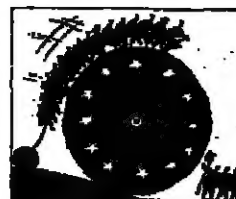


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# FINANCIAL TIMES

World Business Newspaper <http://www.ft.com>

THURSDAY SEPTEMBER 10 1998



**European Union**  
**'This is a club which people want to join'**  
Lionel Barber, Page 10



**High tech M&A**  
**Bigger deals change face of industry**  
Page 11



**Switzerland**  
**How to pack a box of chocolates**  
Page 22



**Surveys**  
**Business of Travel**  
**FT World Energy Review**  
**Separate sections**

## WORLD NEWS

### Yeltsin silent on choice of Russian prime minister

Russian president Boris Yeltsin met Vladimir Chernomyrdin, the acting prime minister, and Yevgeny Primakov, the foreign minister - two of the top prime ministerial contenders - but refused to name his choice. Page 12; Crisis, Page 2; CSFB cuts exposure, Page 12

**Paris at ease with turmoil**  
The French government predicted that growth in the eurozone would help the economy overcome international market turbulence, estimating that its domestic product would rise next year. Page 5; Editorial Comment, Page 11; Eurozone, Page 23

**Eisenstat urges Holocaust fund**  
The Swiss government should follow up its banks' recent \$1.25bn settlement with Nazi victims by proceeding with an earlier plan to set up a fund for victims of the Holocaust and other catastrophes, US official Stuart Eisenstat said. Page 2

**Ex-minister heads for jail**  
José Barrionuevo, Spain's long-serving interior minister, was preparing to be escorted to jail by members of his former department in the midst of a bitter political argument about his conviction. Page 3

**Brussels blocks airport plan**  
Claudio Burlando, Italy's transport minister, flew to Brussels after the European Commission declared illegal plans to force all airlines but Alitalia to use Milan's Malpensa airport. Page 2

**Boost for weapons agency**  
Defence ministers of Britain, France, Germany and Italy signed a treaty giving legal status to an embryonic European arms procurement agency. Page 7

**Fraud investigator reinstated**  
India reinstated one of its fraud investigators after a rebuke from the supreme court over his sudden and controversial transfer to a low-key job. Page 4

**PC sales show global growth**  
Worldwide personal computer sales show solid growth despite problems in Asia and Russia, says the International Data Corporation. Page 5

**Treaty on hazardous chemicals**  
Ministers and officials from nearly 100 countries meet in Rotterdam today to sign a treaty dealing with the import of hazardous chemicals. Page 5

**Floods threaten Dhaka**  
The Bangladeshi capital of Dhaka was on full alert as flood waters threatened to break through an embankment protecting 600,000 residents. Page 4

**Kosovan refugees flee shelling**  
Thousands of people fled their homes in south-western Kosovo under heavy shelling by Serb security forces.

**Cyber-war peace plan**  
The US and the EU appear to be closer to agreement on a peace formula to avert the world's first cyber-trade war. Page 7

**How life may have begun**  
Life on earth may have begun in a natural Jacuzzi that bubbled hydrogen gas out of the ocean floor. Page 8

**JAL and ANA ban smoking**  
Japan Airlines and All Nippon Airways said all their international flights would be non-smoking from next spring.

## BUSINESS NEWS

### BoJ to loosen monetary policy to avert deflation

The Bank of Japan is to loosen monetary policy for the first time in three years in an effort to prevent the world's second-largest economy from sliding into a deflationary spiral. Page 12; Central Bank sets pace, Page 4; Fuji Bank fails, Page 13

**Ericsson, the Swedish telecommunications company, made its first big foray into the internet products market by acquiring a majority stake in Calixto-based Advanced Computer Communication. Page 13; Technology mergers, Page 11**

**Peugeot-Citroën shares climbed sharply after the French car-maker reported a more than four-fold increase in first-half profits, at the top end of analysts' expectations. Page 16**

**Telefonía, the Spanish telecommunications group, is poised to take a further step in its expansion into the media by purchasing Spain's third largest radio network. Page 16**

**The formal prospectus for the sale of a 28.5 per cent stake in NTT CoCom, the Japanese mobile telecom group, will be issued on Monday. Kicking off an initial public offering that analysts say could raise \$15bn. Page 13;**

**Segram, the Canadian entertainment group, hopes to complete its \$10.4bn takeover bid for PolyGram, the Dutch music and film company, by the beginning of November. Page 18**

**International banks snubbed Malaysia's last-minute decision to extend a deadline for them to settle outstanding ringgit contracts, shutting the door on further financial dealings. Page 12**

**Nickelmin, the Swedish real estate company, said a SKr3bn (\$377m) takeover bid for it by Drott, a larger rival, undervalued its assets. Page 18**

**Freeo, the commercial vehicles arm of Italy's Fiat, said it should report sharply higher sales and profits when the group reports its first-half results on September 22. Page 16**

**Carlo De Benedetti, the former chairman of Olivetti, teamed with BAA, the privatised British Airports Authority, to bid in the planned privatisation of Italian airports. Page 16**

**Multinational shares plunged more than 20 per cent after the Finnish confectionery and food packaging group warned full-year profits would be lower than expected because of the Russian crisis. Page 15**

**Santam, South Africa's second-biggest life insurer and asset manager, said its forthcoming demutualisation would create a company worth up to R18bn in the country's biggest new stock market listing to date. Page 13**

**Arthur Levitt, chairman of the Securities and Exchange Commission, the main US regulatory agency for securities, announced measures to improve transparency in the US corporate bond market.**

**Lax on Tokyo IPOs**  
**DoComo signals shift from famine to feast**  
Page 12

## UK gains euro-zone banking role

By Wolfgang Münchau in London

The European Central Bank is to allow the UK to help co-ordinate banking supervision in the new European single currency zone even though the country is not adopting the euro.

The concession reflects a recognition of the importance of the City of London as Europe's largest financial centre.

The UK is one of four European Union members that will not join the single currency at its launch on January 1 1999. But the ECB's board of governors is expected to admit the UK, Greece, Denmark and Sweden to a key committee, co-ordinating banking supervision and ensuring financial stability, according to European banking officials.

The decision - which could be taken at a meeting of the ECB's governing council in Frankfurt tomorrow - is partly influenced by renewed sensitivity to the importance of maintaining the stability of the EU financial system following the banking crises in Asia and Russia.

The decision is also politically significant because it further blurs the distinction between the 11 "insiders" who will take part in the single currency from next year and the four "outsiders".

The ECB already operates two separate boards of governors - a governing council, drawn from the euro-zone 11, that takes policy decisions, and a general council that includes all 15 central bank governors.

A previous vote to accommodate the interests of the outsiders came in July when ECB governors opened the Target payments system to the central and commercial banks of outsiders on unexpectedly generous terms.

Target is expected to be one of the main systems for inter-bank transactions in the euro-zone from next year.

A British official said the decision to include the UK in the supervisory activities of the ECB was a matter of common sense and came as no surprise.

"It would not make any sense at all to exclude the UK, and I am glad that this is not happening," said one senior European banking official.

The UK will be represented by the Bank of England and the Financial Services Authority (FSA), the financial market regulator. The committee is to meet at least four times a year.

Under Europe's new monetary regime, national authorities will remain in charge of banking and financial sector supervision; the ECB head office will play only a relatively minor role. The banking supervisory committee could become a key body for co-ordinating policy across national boundaries and for ensuring that the euro-zone will be equipped to deal with financial turmoil.

For example, the ECB and national central banks have not yet laid down pan-European rules about how national monetary authorities can assist domestic banks in trouble. Some European officials have defended the lack of formal rules arguing that transparent bail-out regulations would create moral hazard by encouraging banks to take on unnecessary risks.

Britain to help co-ordinate supervision despite staying out of Emu

## Clinton appeals for support from Democrat leaders

President is urged to make repeated pleas for forgiveness as Starr report looms

By Richard Wolffe in Washington

US president Bill Clinton made an emotional appeal for support from Democratic party leaders yesterday as legislators from both parties began preparations to deal with the long-awaited report into the Monica Lewinsky sex scandal.

In a 90-minute meeting at the White House, senior Democrats urged Mr Clinton to make repeated pleas for forgiveness in public to rescue his embattled presidency.

David Bonior, the Democratic whip in the House of Representatives, said: "What we saw was a father, a husband, a leader of our country who was contrite and who was very sorry for his actions. He wants to carry on the business of the country, but he clearly understands the deep pain that he has caused his family, his colleagues, the people he works with, members of Congress and the country."

Kenneth Starr, the independent counsel investigating allegations of sexual misconduct and perjury by the president, is expected to send his official report to the House of Representatives within a week.

Republican and Democratic

leaders of the House yesterday agreed to publish the main section of Mr Starr's report on the internet, and to deal with its findings in an impartial manner.

Henry Hyde, chairman of the House judiciary committee which would begin any formal impeachment proceedings, said: "This is a messy job but somebody has to do it. No one looks forward to this traumatic journey that we're about to enter on. We did agree this morning that we're going to do our level best, as much as humanly possible, to work in a bipartisan fashion, because we all agree any impeachment cannot succeed unless it is done in a bipartisan way."

Democrats insisted they were not planning for impeachment. However Richard Gephardt, the leader of the House Democrats, said legislators should follow the process established during the Watergate scandal, which led to the resignation of president Richard Nixon. He said congressmen should "carefully consider and try to follow" the Watergate precedent.

Democrats yesterday acknowledged that the president's failure to address the scandal had hurt the party's prospects in the mid-term congressional elections in



Bill Clinton is escorted by a military chief at Andrews Air Force base in Maryland on his way to Florida after senior Democrats urged the president to make repeated public pleas for forgiveness over the Lewinsky scandal. Picture: AP

November. However, they insisted that Mr Clinton would be able to remain in office. Mr Bonior said: "The American people do not want to see this president fail."

Meanwhile, senators continued to debate impeachment and the investigation of the president both on the floor of the senate

and in committee. Robert Byrd, the Democrat who is one of the most senior figures in the Senate, criticised the president for his "ill-timed, ill-formed and ill-advised" television address last month which attacked Mr Starr.

But he also called on Congress to pause before beginning impeachment proceedings. "I

respectfully urge everyone in this town to calm down for a little while and contemplate with seriousness the impact that our actions may have on the well-being of the nation, your children and my grandchildren," he said.

Different rules, Page 10  
Editorial Comment, Page 11

## Procter & Gamble chief steps down to aid reorganisation

By Richard Tomkins in New York

Procter & Gamble, the world's biggest consumer products group, yesterday revealed that John Pepper was preparing to step down as chairman and chief executive after only three years in the job.

The successor will be Durk Jager, president and chief operating officer, who is the other half of the two-person team that took charge of the company in July 1995.

P&G, which has been struggling to meet its growth targets, also shook investors with a warning that profits in the quarter to September would be in the "mid single digit" range, significantly lower than expected, because of flat volumes.

The company said it hoped to make up the lost earnings later in its financial year to June 30, 1999, but its shares slid \$4, or 6 per cent, to 74 1/2 amid worries about its growth prospects.

The announcement came as P&G announced plans for a reorganisation that will change the way it does its business worldwide.

Instead of being split into four geographical units serving the world's main regions, the company will be reorganised into seven global business units responsible for each of its prod-

uct areas world-wide. The plan, dubbed Organisation 2005, was flagged in the company's annual report last week. But the management changes announced yesterday were a surprise.

Mr Pepper, 60, said he had decided to hand over the top job to Mr Jager, 55, because the reorganisation would take many years and it was important that it should be headed by someone who would be there to see it through.

Mr Jager, who was firmly established as the heir apparent, will take over as chief executive on January 1 next year, leaving Mr Pepper as chairman until September 1, when Mr Jager will take that job, too.

The reorganisation is aimed at making P&G more responsive to consumers' needs, increasing the pace of innovation, and speeding up the time it takes to bring new products to market.

P&G's sales have recently been falling far short of the levels it needs to meet its goal of doubling revenues to \$70bn by the year to June 2006. Mr Pepper said P&G still aimed to achieve that long-term goal. But Clayton Daley, chief financial officer, said volumes in the quarter to September were likely to be flat.

Wall Street Blues, Page 18

## WORLD MARKETS

STOCK MARKET INDICES		NEW YORK: DOLLAR	
Dow Jones Industrial	7,507.76	(-113.02)	
NASDAQ Composite	1,843.08	(-16.58)	
Europe and Far East			
FTSE 100	3,782.13	(-41.87)	
DAX	5,040.87	(-82.97)	
Nikkei 225	5,511.3	(-32.9)	
US BOND MARKET			
10-year Treasury	147.55	(-1.07)	
3-month Treasury	94.9		
Long Bond	103.4		
Yield	5.29		
OTHER RATES		COMMODITIES	
US 3-month Treasury	7.75	Gold	328.4
US 10-year Treasury	114.453	Oil	28.4
Forward 10 yr US	107.34	Wheat	10.5
Germany 10 yr Bond	108.28	Corn	10.5
Japan 10 yr JGB	112.07	Soybean	10.5
US Dollar vs UK (pound)	1.62	Beef	10.5
US Dollar vs Euro	1.62	Pork	10.5

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CONTENTS	
World News 2-7	UK News 8
Features 22	Comment & Analysis 10, 11
Companies & Finance 13-20	World Stock Markets 30-36
Full contents and List back page	

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## Russia outlines tax changes

By Christa Frelund in Moscow

Russia's fragile government yesterday announced tax changes and outlined an anti-crisis package, as ministers struggled to conduct business as usual in the face of growing political uncertainty.

The flurry of economic measures coincided with a significant, if probably short-lived, appreciation of the rouble.

The official rate jumped to 15.8 against the US dollar, from the central bank's official rate of 30.8. Analysts said the rouble's recovery was unlikely to last, but it was a welcome sign for the cabinet, whose authority has been eroded by a battle between parliament and the Kremlin over who will be Russia's next prime minister.

In the government's first concrete attempt to respond to the economic crisis, Victor Chernomyrdin, the acting prime minister, focused on the tax system, a long-standing weakness made more severe by the paralysis of the banking system.

Yesterday, the acting prime minister scrapped a 3 per cent increase in import duties on medicines and some medical equipment. The duty had been imposed by the previous government, under pressure from the International Monetary Fund, to increase tax collection. But the financial crisis, which has sparked fears of a shortage in imported medicines and food, has forced a change in focus.

The Kremlin also announced its own economic plan, Russian news agencies reported yesterday. The plan included guaranteeing food supplies to the armed forces and indexing wages and pensions.

Mr Chernomyrdin said the government was considering cutting the oil excise tax. Oil companies have been calling for a reduction for months, but the government had been reluctant to give way because the oil excise tax is one of the treasury's chief sources of revenue.

The cabinet has also introduced a number of changes in the tax collection system, in an effort to prevent the collapse of the financial system and rising inflation.

Russia's 14 oil companies and Gazprom, the natural gas giant, will be allowed to pay their taxes in hard currency, a step economists said was a standard response to the very high levels of inflation the country is expected to endure over the next few months.

The government also ordered the transfer of the tax accounts of Russia's 50 largest companies from private banks to the central bank or to state-owned banks.

Over the past few days, Boris Fyodorov, the first deputy prime minister, has also released further details of the broader anti-crisis package the government would like to implement, if it is confirmed by parliament.

The plan calls for a balanced budget, perhaps using international credits; pegging the rouble to hard currencies, possibly via a currency board, for five years starting December 1; eliminating all bank reserve requirements on October 1; and a radical cut in taxes and an amnesty for old tax arrears.

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## Ukraine in debt default warning

By Charles Clover in Kiev and Jeremy Grant in London

Ukraine's finance minister warned yesterday that his country could be forced to default on its debt unless foreign investors accepted a voluntary deal to swap treasury bills for debt with lower yields and longer maturities.

The comments from Mr Mityukov came as the government released details of the proposed swap, and as Moody's Investors Service announced that it was downgrading Ukraine's credit rating, citing the depletion of foreign exchange reserves to "dangerously low levels".

Moody's said that with reserves at \$800m, or enough to pay for only one month of

imports, there was an increased risk of Kiev defaulting on its foreign debt. As a result it was downgrading Ukraine from a B3 to a B2 rating.

Mr Mityukov warned that the International Monetary Fund had indicated it could suspend a recently agreed \$2.2bn loan programme to Ukraine, if it did not manage to restructure the 80 per cent of its domestic debt held by foreign investors.

"Unfortunately, this is a new condition discussed with the IMF's board of directors," said Mr Mityukov. "The extension of the maturities on the local treasury bill market could be one of the performance criteria" for the IMF loan.

The government, he said, "probably would be forced to default on its obligations" if the conversion was not successful.

Ukraine has been faced with a crisis similar to Russia's. Overborrowing by Moscow, followed by a wave of redemptions by investors this year prompted by the collapse of the rouble, created a run on the currency.

The central bank effectively devalued the hryvnia last Friday when it widened its trading range from between 1.8 and 2.25 against the dollar to between 2.5 and 3.5 against the US currency.

Foreign investors hold about 1.8bn hryvnia (\$900m) in T-bills - known as OVPDs - and are being asked to

swap them for lower-yielding securities with longer maturities. Foreign investors will have the option to roll over maturing treasury bills into two-year securities with minimum dollar yields of 22 per cent, and hryvnia yields of 40-45 per cent. Local investors faced a similar restructuring at 40 per cent yields late last month.

The new securities, however, will be issued at far below market yields. Ukrainian eurobonds with 2.5 year maturities are trading on the secondary market at yields of 50-100 per cent, which makes a yield of 22 per cent seem paltry to most investors.

"Obviously it's not very attractive but the positive

thing is that it's being managed better than the recent swap in Russia. It's also not as confiscatory," said Tim Ash, economist at West Merchant Bank. Investors in Russia's T-bill (GKO) market have been forced to write down up to 85 per cent of their original investments.

A western investment banker said the IMF was anxious that its money was not used to pay off short-term speculative investors.

However, Mr Mityukov said the conversion was necessary to ensure the government's continued solvency.

Foreign-held treasury bills account for some 40 per cent of Ukraine's debt service until the end of the year.

## Moscow crisis leads EBRD into loss

By Kevin Donohue East Europe Correspondent

The crisis in Russia has pushed the European Bank for Reconstruction and Development into its first loss for six years.

The bank said yesterday that it would be forced to make provisions of around Ecu180m (\$181m) in the third quarter against its exposure to Russia, where it is the world's biggest foreign direct investor in the private sector. The scale of the provisions was expected to plunge it into a net loss of around Ecu150m for the first nine months of 1998, compared with a net profit of Ecu29m in the first six months.

Steven Kaempfer, EBRD finance vice-president, said the bank would be hit by total provisions in the third quarter of around Ecu180m in response to the current financial and political crisis in Russia and other countries in the region.

In its first official response to the turmoil in Russia since the rouble was devalued in mid-August, the EBRD board underlined its continuing commitment to Russia, where it had loan and equity investments at the end of July totalling Ecu2.7bn, equivalent to 27 per cent of its total banking portfolio of Ecu9.9bn.

Mr Kaempfer said that the bank's AAA credit rating was not endangered, and that its Ecu20bn authorised capital was "fully adequate" to sustain all of its operations throughout east Europe and the



Horst Köhler: the bank will not withdraw from Russia

former Soviet Union.

As a result of its latest measures, the EBRD has increased total provisions in Russia to Ecu330m, covering around 30 per cent of its non-sovereign loan and investment exposure in the country.

Horst Köhler, the recently appointed president of the EBRD, said at its meeting yesterday the board had "strongly emphasised" that the bank will not withdraw from Russia. The transition will take time and requires long-term commitment.

He said that "Russia's priority must now be to form a government without delay in order to end the political vacuum and move ahead with reforms. It is vital that Russia deepens its commitment to the market economy and creates a climate where investment can grow."

Mr Kaempfer said that the EBRD, along with some other international financial institutions, had been exempted by the Russian

government from the 90-day moratorium on foreign commercial debt repayments. The exemption also covered commercial banks involved in loan syndicates organised by the EBRD.

The bank had zero exposure to the Russian GKO domestic debt market and Mr Köhler said that most of the EBRD's 87 projects in Russia were "of a long-term industrial nature". However, the biggest concentration of the EBRD's exposure in Russia is to the troubled banking sector, accounting for Ecu489m or 34 per cent of the total, followed by the oil and gas sector with Ecu260m, or 18 per cent.

The EBRD has around Ecu40m of payments from Russia due by the end of the year, but Mr Kaempfer said that all of its payments from Russia were on schedule. The bank was reviewing its projects case by case, but it had not yet delayed any disbursements.

## GKO freeze decision 'must be reversed'

By Arkady Ostrovsky in Moscow

The Russian financial system is facing imminent collapse unless the government immediately reverses its decision to freeze the treasury bill market, according to Dmitry Vasilyev, chairman of the federal commission for the securities market.

Mr Vasilyev warned that medical insurance companies, pension funds and emerging mutual funds, which have largely invested in government bonds (GKOs), would be worst hit.

"It is not just an economic, but a huge social problem. Some medical insurance companies are 100 per cent dependent on the GKO market, which means we are going to have a problem of providing medical service to Russian citizens," he said.

Despite their minuscule size, Russian mutual funds, private pension funds and insurance companies are important because they have been seen as a symbol of economic and social stability.

They were also the first attempt to build a viable financial system by channeling idle savings of small domestic investors, which were often kept under pillows, into a working investment.

"There is a threat that mutual funds which are solely invested in GKOs, presumably will have to be closed, and this would mean an enormous default against

Russian investors," said Mr Vasilyev.

According to Flenings, the Scottish management group, the Russian embryonic mutual funds market had already shrunk from \$40m in July to about \$7m. "We were lucky, because we did not have time to invest in Russian debt," says Jan Hochcritt, the fund's marketing manager.

Though Russian mutual funds are lobbying the government to pay off its debt on "special terms", Mr Vasilyev insists there should be no discrimination against foreign investors in redeeming GKOs, as this would further undermine western confidence in Russia.

Mr Vasilyev says that to save the Russian financial system, the government must reverse its decision to freeze the GKO market and begin immediate talks with Russian and foreign creditors about restructuring the debt, which would be acceptable to Russian and foreign investors.

"The government should immediately unfreeze the debt market and start [secondary] trading in GKOs to give some liquidity to the financial system. This is also one of the most important conditions of reviving the banking sector, paralysed by non-payments," Mr Vasilyev said.

Paralysis of the banking system would mean a further slide to barter trading, he added.

## Swiss urged to pursue Holocaust fund plan

By David Buchanan in Paris

The Swiss government should follow up its banks' recent \$1.25bn settlement with Nazi victims by proceeding with its original plan to set up a larger Solidarity fund for victims of the Holocaust and other catastrophes, a senior US official said yesterday.

Stuart Eizenstat, the State Department official who has led much of the quest for compensation for Holocaust victims, admitted that "public opinion in Switzerland is still very raw" about the demands on its banks, which many in the country saw as extortionate.

But he said he hoped that, with the threat of US financial sanctions now removed, the Swiss government would return to its idea of putting the Solidarity fund to a referendum.

Mr Eizenstat also said he

expected Switzerland to continue the work of the Bergier commission on the country's wartime role and to promote its findings.

He also hoped the country would distribute money donated by the Swiss National Bank and private companies to Holocaust victims, and pursue to the end the work of the Volcker inquiry into dormant bank accounts.

Mr Eizenstat was speaking in Paris at the formal closing of the post-war Tripartite Gold Commission (TGC) under which the US, Britain and France have supervised the return of 387 tonnes of gold to 11 countries whose central bank reserves were looted by the occupying Nazis.

While the commission has now closed, the opening of its archives to the public may maintain the controversy.

Shimon Semuels, international director of the Wiesenthal Centre, said the newly opened archives "will help us in the paper trail" that led to "some iniquitous" decisions, such as the TGC's return of 52 tonnes of gold to Austria.

He also hoped the archives would shed some more light on the presence of "victim gold" among the central bank bullion handled by the commission.

The two remaining issues of looted assets involved insurance and art, Mr Eizenstat said.

He said that next Monday US insurance commissioners and a dozen European insurance companies were due to set up a "Volcker-style" inquiry into the fate of victims' policies.

This would have to be "brought together" with the US class action suit against the insurers, he said.



From left: Stuart Eizenstat of the US, Anthony Layden of Great Britain and Claude Martin of France, in Paris yesterday

He had no plans to mediate in this case or in suits against Deutsche and Dresdner banks of Germany and other German companies, such as Volkswagen, which have been

accused of using forced labour.

But Mr Eizenstat did not rule out such a role, given the cases' potential for fueling tensions between the US and European countries.

## Brussels bans Milan airport plan

By Michael Smith in Brussels and Paul Belts in Milan

Claudio Burlando, Italy's transport minister, flew to Brussels for emergency talks yesterday, after the European Commission declared illegal his country's airport plans.

The Commission, the European Union's executive, ruled that Italy's plans to force all airlines but Alitalia to use the expanded Malpensa airport at Milan were "discriminatory and therefore incompatible with European law".

Hopes for a settlement rose, however, after the Commission decided to delay the decision's adoption into law until its weekly meeting next Wednesday. Neil Kinnock, EU transport commissioner, warned that the talks would be time-limited. "We cannot extend them beyond a few days," he said.

The Italian government has instituted rules that would force foreign airlines to transfer flights to Malpensa, scheduled to open on October 25, from the existing Linate airport.

Nine airlines have com-

plained that the Italian rules are discriminatory, because Alitalia would be the only large airline allowed to feed its hub, in Rome, from Linate. Malpensa is about 50km from Milan's centre and local transport links from the city have yet to be completed. The airlines argue Malpensa is unattractive to potential passengers, who are likely to choose to fly from Linate - and thus with Alitalia - in preference to making the long trip to Malpensa.

After considerable sabre rattling over the last few weeks, when Italy even threatened complete closure of Linate, the Italian authorities now appear prepared to accept a gradual phase-in of Malpensa to allow for the completion of the road and rail infrastructure.

A compromise is expected to involve a partial transfer of flights from Linate to Malpensa. Romano Prodi, Italian prime minister, said yesterday that Malpensa was an issue of "national interest for Italy".

Under the EU's aviation liberalisation rules, member states can distribute traffic

across their airport systems as they see fit, but they must do it "without discrimination on grounds of nationality or identity of the air carrier".

The Commission believes Italy is infringing the rules because it had decreed that only routes with more than 2m passengers a year could remain at Linate, the effect of which was that only flights to Rome could operate from Linate.

Mr Kinnock said yesterday that operating conditions and access to air markets had to be equitable.

## NEWS DIGEST

### MOVES ON INTEREST RATES AND ZLOTY

#### Poland signals confidence towards financial markets

Poland yesterday cut interest rates and reduced the speed by which the zloty is permitted to fall - steps that signalled the authorities' confidence in the country's ability to weather the storm in international financial markets.

The National Bank of Poland, the central bank, reduced its key 28-day rate by one percentage point to 18 per cent, and cut from 0.65 per cent to 0.5 per cent the amount by which the zloty is permitted to fall each month against a basket of currencies. The currency is allowed to trade 10 per cent above or below a central rate set by the bank.

In the immediate wake of the latest turmoil induced by Russia's debt moratorium in August, the currency fell sharply but has since recovered and is now trading above the mid-point of its range. Stefan Wegstl, London

### POLAND AND NATO

#### Warning of second class status

Poland risks becoming a second class member of Nato when it joins the military alliance, because of delays in implementing security clearance procedures for several thousand top civilian and military officials, a member of the Polish parliament's national defence committee said yesterday.

Wojciech Wlodarczyk was commenting on a newspaper report stating that Poland's State Security Office (UOP) had yet to send out the security questionnaires which it received from Nato in March. Poland, Hungary and the Czech Republic are due to join Nato next spring.

The questionnaires cover career details, political views and sexual proclivities. Answers have to be verified by Poland's security services or Nato itself, depending on the level of security clearance.

The report in the rightwing Gazeta Polska weekly quotes government officials as saying there is no hope of Poland completing the security procedures by next January, the date when Poland has said it will be ready to join the alliance. Christopher Bobinski, Warsaw

### ITALIAN ECONOMY

#### Prodi sees slower GDP growth

Romano Prodi, Italy's prime minister, has acknowledged for the first time that his country's gross domestic product would grow this year by just 2 per cent, well below the level forecast by the Treasury in its three-year economic plan in April.

In a radio interview, Mr Prodi said the downgrading of Italy's growth prospects had taken place because of recent crises in Asia and Russia. "It is certainly not the fault of Italy and Europe if Russia and Asia have suddenly entered a crisis," he said. His preoccupation was to carry out reforms that would boost economic growth, he added.

Mr Prodi's comments came as Confindustria, the employers' federation, gave a sober forecast for Italian unemployment, warning that the figure would not fall below 12 per cent in 1999 as the government has predicted. In its autumn economic analysis, Confindustria said the reform of Italy's public finances appeared well on track, partly because the recent sharp drop in Italian government bond yields had significantly lowered Italy's debt servicing costs. James Blitz, Rome

### FRENCH INVESTIGATION

#### Magistrates order probe

French magistrates yesterday ordered a probe into Jean-François Henin, the ex-chairman of Altus Finances, a branch of the state-owned bank Crédit Lyonnais, for suspected misuse of company funds. Mr Henin was formally placed under investigation in connection with Altus Finances' 1993 purchase of waste-processing company Sater Parachini, according to judicial officials. The magistrates are investigating suspected fraud in the FF700m purchase and in fees paid to people involved in the deal.

Mr Henin was released on bail of FF1m (\$172,000) after two days in police custody for questioning. He is already being formally investigated on suspicion of being an accomplice in bankruptcy over the role of Altus Finances in propping up Groupe Morand, which bought a local food transport firm, Escourier, and later went bankrupt with a cost to Altus and taxpayers of more than FF2bn. Altus Finances played an important role in Crédit Lyonnais' acquisition of a big portfolio of stakes in French companies. Reuters, Paris

### SWISSAIR CRASH

#### Suit filed in New York

SAIRGroup, the parent company of the airline Swissair, declined comment yesterday on news that a lawsuit had been filed over the crash last week just off the coast of Nova Scotia in which 229 people were killed. "We have not yet seen the suit," said SAIRGroup.

The suit, filed in a Brooklyn federal court by boxing figure Jake LaMotta, was the first filed over the crash. Mr LaMotta brought the suit on behalf of his son Joseph, 49, who was killed while on his way to Switzerland to promote a business venture.

The suit seeks more than \$50m in damages from Swissair, Delta Airlines, McDonnell Douglas, which manufactured the MD-11 aircraft, and Boeing, which now owns McDonnell Douglas. Officials have not yet determined the cause of the crash. Reuters, Zurich

### CARLOS LINK CLAIMED

#### Germany to request extradition

Prosecutors said yesterday that Germany would request the extradition from France of Hans-Joachim Klein, a former accomplice of "Carlos the Jackal", the guerrilla who was active in the 1970s.

Mr Klein, aged 50, who is wanted on charges of murder and kidnapping and is also sought by Austria, was arrested in northern France on Tuesday after being on the run for more than 20 years. He was detained by an anti-terrorist squad near the Normandy village of Sainte-Honorine-La-Guillaumie, where he had been living under an assumed name.

Job Tillmann, a Frankfurt prosecutor, said the justice ministry in the state of Hesse planned to file the extradition request to prosecutors in France. Mr Klein was tracked down in a joint operation by French and German police.

Prosecutors say Mr Klein took part in Carlos's most spectacular attack, the 1975 kidnapping of Opec oil ministers in Vienna in which three people were killed. An Austrian justice ministry official said Vienna would also apply for Mr Klein's extradition, but could not yet say what the charges would be. Mr Klein suffered a serious stomach wound in the kidnapping of the Opec oil ministers, but was treated and then allowed to fly to Algiers with Carlos, his other accomplices and their hostages. Reuters, Bonn

German rate S  
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## German rate of growth slows down

By Tobias Buck in Bonn

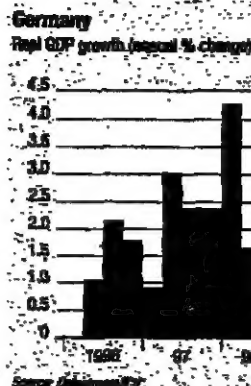
Germany's rate of growth declined sharply in the second quarter this year, with gross domestic product growth slowing to a year-on-year rate of 1.7 per cent. The figure offers Chancellor Helmut Kohl little comfort ahead of the general election on September 27.

The economy all but stagnated between the first and second quarter, with quarter-on-quarter growth of 0.1 per cent, slightly below market expectations of between 0.2 and 0.3 per cent.

After revisions, first-quarter GDP growth was 4.3 per cent year-on-year, the highest rate since German unification in 1990, according to figures released yesterday by the federal statistics office.

A mild winter and a difference in the number of working days contributed to the marked contrast between the two quarters. In addition, a one percentage point rise in value added tax from April 1 this year encouraged spending in the first quarter. As a result, private consumption growth slowed sharply from a year-on-year rate of 1.9 per cent in the first quarter to 0.4 per cent in the second.

Other sectors also slowed, although government spending was 0.6 per cent higher in the second quarter than a year before, compared with 0.1 per cent in the first quarter. In the building sector, a 2.7 per cent rise in the first



quarter was followed by a decline of 7.4 per cent in the second quarter year on year.

GDP in western Germany grew by 1.8 per cent, down from 4.3 per cent in the first quarter, while economic growth in the eastern part stagnated after growth of 3.8 per cent in the first three months this year.

However, Mr Kohl's cabinet - meeting for the last time before the election - expressed optimism about the outlook. Günther Rexrodt, economics minister, said the first two quarters of this year should be taken together.

He expected Germany's GDP to grow by 2.9 per cent in the full year.

However, analysts remained sceptical. "We do not expect to see an acceleration of growth in the second half," said Lothar Hessler, analyst at HSBC Trinkaus.

## Paris at ease with economic turmoil

By David Buchanan in Paris

France's Socialist government predicted yesterday that growth in the euro-zone would help the economy overcome international market turbulence, estimating that its domestic product would rise 2.7 per cent next year.

The forecast came as Dominique Strauss-Kahn, finance minister, presented what he termed a "prudent and realistic" 1999 draft budget to parliament.

The main tax and spending details of next year's budget plan were announced in July. But after the instability in Asia and Russia, yesterday's announcement was keenly awaited to see whether the government would recast its macroeconomic assumptions.

Mr Strauss-Kahn raised his estimate for 1998 growth fractionally from 3 to 3.1 per cent, based on booming domestic household consumption and investment.

He shaved a tenth of a point off his previous 1999 growth estimate of 2.8 per cent to reflect slackening foreign demand for French goods and suggested that his original under-estimate of this year's expansion lent credence to the "prudent" character of his 1999 forecast.

"We will hit 2.7 per cent, and perhaps more besides," he said as he left parliament.

The Gaullist opposition accused Mr Strauss-Kahn of presenting a budget that ignored the storms gathering around France and Europe.

Presiding over the cabinet meeting that yesterday endorsed the budget plan, Jacques Chirac, the Gaullist president, castigated the government for not having used this year's good growth to cut taxes and public spending further.

Mr Strauss-Kahn was also criticised by MPs from his Communist and Green coalition allies for doing too much for business and too little for the needy.

The budget plan steers a middle political line, cutting one of the payroll taxes for companies but also raising the wealth levy and pruning value added tax.

Buoyant tax receipts are planned to push this year's public deficit down to 2.9 per cent, and to 2.3 per cent next year. In response to criticism that France is taking too long to reduce its deficit, the Finance Ministry noted that next year should see the French budget in "primary surplus", excluding debt service, for the first time since 1991.

## Schröder in subtle shift of emphasis

By Peter Norman in Munich

For months the Blairite or Clintonesque vision of a "new centre" in German politics was the trade mark of Gerhard Schröder's campaign to displace Helmut Kohl as chancellor.

But with the September 27 general election less than three weeks away and the Bavarian state election next Sunday, the phrase has suddenly disappeared from the speeches that the opposition Social Democratic challenger is giving to enthusiastic crowds in Germany.

The shift in rhetoric has left Mr Schröder sounding rather like Oskar Lafontaine, the SPD's left-leaning leader, it has fuelled speculation that the candidate is anticipating a leftist majority of SPD and environmental Green MPs in the Bundestag, the lower house of parliament.

Yesterday, the campaign team of Just Stollman, the non-party entrepreneur chosen by Mr Schröder to be economics minister, said he was very unlikely to give further interviews or make public appearances before the poll. The news added to the impression of the SPD closing ranks.

An estimated 15,000 people in Nuremberg and 12,000 in Munich this week heard much about the need to restore social justice after 16 years of Mr Kohl's government. They heard considerably less about a broad partnership involving all levels of society to build prosperity. However, Mr Schröder has denied prejudging the election result or deserting the centre ground.

Talking on the train between Nuremberg and Munich, he maintained that social justice had been central to his political message since his successful campaign to be re-elected as prime minister of Lower Saxony early this year.

Social justice was also essential for economic success, alongside priorities such as technological innovation, fair taxation and a fair division of the fruits of industry between employers and employees. The economic crises in Asia and Russia, characterised by huge disparities in wealth between rich and poor, confirmed his vision of an improved "stakeholder" society for Germany.

There was also a practical reason for the eclipse of the "new centre". Mr Schröder's public appearances to September 27 are mainly to mobilise SPD party members and sympathisers for whom the phrase was too vague.

## Spanish ex-minister heads for jail

By David White in Madrid

Spain's longest-serving interior minister since the end of the Franco dictatorship 23 years ago was yesterday preparing to be escorted to jail by members of his former department, in the midst of a bitter political row over his conviction.

José Barriounevo, who held the post in a Socialist cabinet from 1982 to 1988, and Rafael Vera, his former national security chief, were ordered by the Supreme Court late on Tuesday to begin serving their 10-year sentences. They were convicted on kidnapping and

misappropriation charges in a case over covert counter-terrorist reprisals during their time at the Interior Ministry.

It is the first time in modern Spain that a former government minister has been sent to jail. Barriounevo's seat in parliament will be filled by another Socialist. Vera was detained in prison two years ago.

The Supreme Court, in deciding not to wait for the outcome of their appeals to the constitutional court, brought to a head weeks of escalating tension in which Socialist leaders have claimed that the two were

sentenced unjustly and without proof of a 1983 kidnapping.

The kidnapping of a man mistakenly identified as a Basque terrorist living in southern France was the first action claimed by the Anti-Terrorist Liberation Groups (GAL), subsequently blamed for some two dozen killings in a campaign against the Eta separatist organisation.

The court, which reached its majority verdict in July, delayed its decision on whether to jail the other 10 men convicted of the crime. Unlike Barriounevo and Vera the other defendants,

who are former government and party officials and policemen, admitted taking part in the kidnapping and have applied for government pardons. Their sentences range from two to 10 years.

The court accepted the testimony of four of the defendants against their former ministry bosses, arguing that senior officials would not have ordered the kidnapping without their superiors' knowledge and approval.

On Sunday the court's chief magistrate, Javier Delgado, defended the verdict, denying that the court was swayed by political considerations. The General Council

of the Judiciary, the governing body of Spain's judges, also presided over by Mr Delgado, rallied to his support after a ferocious attack from the Socialist party, which accused him of defending the interests of the centre-right Popular party government.

Felipe González, the former Socialist prime minister, who re-enlisted as a lawyer to defend his former colleagues, has insisted the sentence was politically based.

However, José Borrell, the Socialist candidate for prime minister in the next election, has tried to cool down the conflict, arguing



Barriounevo: preparing for jail

that the party should look to the future rather than become bogged down in the past.

## Britain accused on JAT landing rights ban

By Ralph Atkins in Bonn, Michael Smith in Brussels and Guy Dinnmore in Belgrade

Germany accused Britain yesterday of undermining European Union attempts to ease the crisis in Kosovo, after London delayed joining a ban on landing rights within the EU for JAT, the Yugoslav state airline.

The German Foreign Office claimed that London

had "broken ranks with EU solidarity" by insisting that an agreement signed with Yugoslavia in 1969 meant it had to give 12 months' notice before ceasing scheduled flights.

The ministry warned that the UK could now face legal action by the European Commission in Brussels.

Germany and Italy went ahead yesterday with the ban, which was accepted by

EU foreign ministers on Sunday.

Austria also implemented the ban after a JAT aircraft landed in Vienna yesterday morning. Lawyers believe that the ban is legitimate under international law and can supplant bilateral agreements.

The ban was agreed, in tandem with the US, in June when Britain held the EU presidency, but was held up

by objections from Greece, as well as the UK.

The ban on JAT flights is intended as a reprisal for Belgrade's repressive policies in the province of Kosovo. Greece has been politically sympathetic towards Yugoslavia, which now comprises only Serbia and Montenegro.

The German government, clearly worried that the force of the ban would be

reduced, said the agreement should be honoured.

In response, the UK said it had implemented the JAT ban in line with its legal obligations. New bookings for JAT charter flights to Britain have been blocked with immediate effect.

As well as facing a prohibition on flights to European destinations, JAT said it would be stopping direct flights to Sweden.

But the carrier indicated it would now seek to re-route flights via London.

Meanwhile, European airlines are still flying as normal to Belgrade. Unexpectedly, the Serbian government decided not to retaliate against European airlines. Diplomats, however, have quoted government officials as saying Lufthansa, the German airline, may be banned.

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## ASIA-PACIFIC

INVESTOR ANGER LAST-MINUTE DECISION TO EXTEND DEADLINE FOR BANKS TO SETTLE OUTSTANDING RINGGIT CONTRACTS

## Banks snub Malaysian currency tactics

By Sheila McNulty  
in Kuala Lumpur

International banks yesterday snubbed Malaysia's last-minute decision to extend yesterday's deadline for them to settle outstanding ringgit contracts, and shut the door firmly on further financial dealings with the country.

Late on Tuesday night the Malaysian central bank suddenly reversed last week's decision that contracts in its currency had to be settled by yesterday, saying: "All outstanding contracts entered

into prior to 1300 hours on September 1, 1998 can be settled on their respective maturity dates."

But currency dealers said investors were angry at Malaysia for abruptly withdrawing the ringgit from international financial markets to "trap" them into settling outstanding positions at the new official rate of M33.80 to the US dollar. "People worked around the clock to meet it [yesterday's deadline]. Chits have been torn up. You can't just uncancel it," said Patricia Lui, foreign exchange analyst at Techni-

cal Data Thomson Asia, in Singapore, the ringgit's largest offshore market.

The international banks had agreed among themselves to settle the M25bn (US\$6.6bn) in outstanding contracts by "netting off" obligations and converting the difference into US dollars.

Analysts suspect Malaysia hoped with its 11th-hour change of heart to undermine the international banks' agreement to settle at M34.00, the ringgit trading rate when Malaysia announced sweeping cur-

rency controls. When Malaysia imposed controls last week, it counted on repatriation of those funds by yesterday's deadline to shore up a liquidity shortage in its over-extended banking system.

Bankers said Malaysia would have difficulty convincing international banks to do any business with it, particularly at M33.80 when, given the political and economic uncertainty created over the past week, the ringgit would probably be trading closer to M35 to the US dollar, or even M36. "People have no interest in sitting

around in this currency," said a dealer in Singapore. "People are just happy to walk out of Malaysia and never deal with them again."

Manu Bhaskaran, managing director of S.G. Securities in Singapore, said the end to offshore trade in Malaysia's currency and shares would be "a major drag" on Singapore's financial and business sector, which accounts for 28 per cent of gross domestic product.

"Malaysia's drastic measures compound the deteriorating global environment for Singapore," Mr Manu

said. "The island could lose out in the worsening bilateral relations with Malaysia and, longer-term, have its role as regional nodal point for trade and financial flows undermined."

But analysts said Singapore had elevated its position as a regional financial centre by liberalising while even Hong Kong became interventionist. "When recovery comes, Singapore will emerge as the undisputed financial centre of the region," said Kostas Panagiotou, senior economist at Kim Eng Securities.

## Kuala Lumpur orders increase in lending

By Sheila McNulty  
in Kuala Lumpur and  
Edward Luce in London

Malaysia's central bank said yesterday that it would require commercial banks to expand their loan books at a rate of 8 per cent a year, beginning this year, to stimulate the economy.

The banks have for months resisted calls by Mahathir Mohamad, the prime minister, to increase lending, fearing it would add to their non-performing loans. Economists predict non-performing loans will

account for up to 30 per cent of all loans at the peak of the financial crisis, which is expected next year. But the central bank said two government agencies had been created to buy non-performing loans and recapitalise banks, which should ease fears of adding to the problem.

Yesterday's measure bolsters moves by the central bank last week, when Dr Mahathir imposed sweeping capital controls designed to repatriate billions of ringgit and keep it in the country. Bank Negara sharply cut the

amount of money banks must place with it at no interest and cut interest rates to revive lending.

However, Fitch IBCA, the credit rating agency, warned that last week's "arbitrary" imposition of exchange controls would badly damage Malaysia's creditworthiness.

The agency downgraded Malaysia's rating to BB, two notches below the investment grade threshold of BBB minus. This puts Malaysia's debt into "junk bond" status for the first time in more than a decade. Fitch IBCA said that there

was little likelihood of Malaysia defaulting on its external debt in the near future given its very low debt service obligations. Malaysia, which had been planning to tap up to \$2bn from the international bond markets in the near future to help capitalise its domestic loan restructuring agency, has never issued a sovereign bond. "We are in no doubt about Malaysia's ability to service its debt. It is a question of its willingness to do so," said Paul Rankins from Fitch IBCA in London. "If Malaysia can change rules in

an arbitrary fashion once, it can do so again."

Before yesterday's measures, restrictions on property lending in Malaysia had already been eased and there were plans to relax controls on the equity market. The curbs were instituted last year to divert lending to productive sectors in the hope of limiting the decline in asset prices.

But economists say productive sectors such as manufacturing cannot pull the economy out of recession, given that about 65 per cent of its exports are to Asia,

which is embroiled in crisis.

Song Seng Wun, regional economist at G.K. Goh Research, said loan growth in July, the last month reported, was 8.8 per cent, but it has been dropping about two percentage points every month. The economy contracted 6.8 per cent in the second quarter.

If banks do not meet the minimum growth rate in loans they will be asked to "provide acceptable justification to Bank Negara," the central bank said, without indicating the sanctions envisaged.

## Financial crisis re-ignites old tensions with Singapore

KL's curbs on the markets hit at the heart of the city-state, writes  
Sheila McNulty

Tanjong Pagar railway station, with its tile mosaics of a boy tending cattle, rubber tappers and Chinese junks, speaks of another age. It was built in Singapore in 1932 but belongs to Malaysia, under an agreement reached when neighbouring Malaysia and Singapore were linked under British rule.

But today it is out of place amid the skyscrapers built around it over the decades, and the city-state of Singapore wants to shut it down. Malaysia refuses.

The ensuing confrontation has turned Tanjong Pagar into a monument to the long-standing rivalry between the two countries, intensified by the financial crisis that has undermined the co-operation between them nurtured by years of prosperity and optimism.

Now Malaysia has upped the stakes. It has imposed sweeping capital controls that strike directly at the heart of Singapore's all-important financial centre.

Last week the government in Kuala Lumpur barred offshore trading of Malaysian shares and withdrew its currency from international trade to insulate the economy from volatile global financial markets.

It was a severe blow to Singapore's financial markets where trade in Malaysian shares constitutes about 80 per cent of the business on the Stock Exchange of Singapore's over-the-counter market.

And Singapore banks have been rushing to clear billions of ringgit in transactions made in its thriving foreign-exchange market. "In the process of [Malaysia] taking control of [its] economy, the biggest casualty is Singapore," says Song Seng Wun, economist at G.K. Goh Research.

Malaysians are simply fed up. They are angry about the pressure placed on the ringgit by an outflow of funds to Singapore banks offering higher rates for ringgit deposits.

Some Malaysians want an end to new bilateral ties. Many want the government to punish Singapore for the row over the railway station by pulling out of the pact by which Singapore buys more than half its water from Mal-

aysia. At the same time Malaysia is threatening to seek total control of airspace it has shared with Singapore for decades and require all exports to pass through Malaysia shipping ports, instead of Singapore's bigger and more efficient one.

Singapore says it would go to the World Trade Organisation if Malaysia did that.

They point out that they pay for their water, which in turn helps Malaysia, as does providing trade, tourist dollars and support for Malaysia's property market.

"We are not to be taken for granted," wrote army reservist Chang Chern Yuen in one of the many letters in Singapore newspapers. "I am prepared to defend and die for Singapore."

Feuds began flaring between the neighbours after they gained independence from Britain. Singapore was brought into Malaysia in 1963 in an attempt to form a Malaysian Federation but was forced out two years later.

Although there are different versions as to why it did not work, many cite fears that the smaller ethnic Chinese majority in Singapore might gain control over the larger ethnic Malay majority



A Malaysian family waits for a train at the disputed Tanjong Pagar station.

of Malaysia.

The memoirs of Lee Kuan Yew, Singapore's senior minister, due out this month, are believed to contain references to Singapore's separation that are expected to stoke the conflict.

Just over a year ago Mr Lee provoked Malaysian outrage when in a court document he described Malaysia's border town of Johor Baru as notorious "for shootings, muggings and car jackings". He later apologised and tensions eased. Those were still prosperous times.

Now, however, Mahathir Mohamad, Malaysia's prime minister, has seized on tensions with Singapore as a rallying point to shore up support. On a recent trip to Johor Baru he said: "We do not have a big army to attack anyone. We have tried to be good neighbours. But don't take us for granted."

He reminded Singapore it depended on Malaysia for water - to a chorus of "Cut! Cut! Cut!" from a crowd of about 10,000. Singapore, too, is pressing

its case. It has already moved its immigration and customs for railroad passengers away from Tanjong Pagar to a new station closer to the border. Passengers must now stop at both station checkpoints.

Singapore says it outlined the plan to move in 1989 to improve protection against illegal immigrants and drug traffickers. Malaysia says Singapore simply wants to drive it off the valuable land amid the crisis to put pressure on Malaysia when it can least afford it.

BANK OF JAPAN MONETARY POLICY EASED

## Central bank decides to set pace in Japan

By Gillian Tett in Tokyo

The markets have got used to Japan's policymakers following in their wake this summer. The economy has worsened rapidly, but the government has produced its policies painfully slowly.

Yesterday, however, the Bank of Japan's policy board caught analysts on the hop by announcing after a day-long meeting it had decided to ease monetary policy by guiding down the overnight call rate and expanding the money supply.

"This is totally surprising," said Norihiko Noshino, of Nomura Securities. "We will have to see how the equity market reacts from here."

From an economic perspective the decision may not be dramatic. Indeed, even the bank itself is doubtful whether cutting the cost of money will help boost the "real" economy significantly.

Interest rates have been stuck at record lows of 0.5 per cent for the last three years, but the economy has still tumbled into its worst recession for half a century.

Japanese savers are so nervous about the future that they seem to have little incentive to borrow more cash, however cheap. And the weak state of Japan's financial sector means the banks are now reluctant to lend money on to corporate customers, even at a reduced cost.

Consequently the measure of "broad money" - which includes bank lending - has been growing by less than 4 per cent a year in recent months even though the central bank has been pumping liquidity into the system. As Susumu Kato, chief economist at Barclays, said: "It is a big question whether this

will really ease the credit crunch."

The real significance of the move may be psychological. The announcement suggests some officials are becoming more realistic in recognising the depth of Japan's economic problems - and more resolute in tackling them.

"Sense has prevailed," said Chris Calderwood of Jardine Fleming. "Just the signal that the bank will do its bit to be lauded."

Quite why the bank's policy board took the decision will not be known for six weeks, when the meeting's minutes are published. But the bank has grown increasingly alarmed that the government's ¥16,700bn (\$128bn) stimulus package will not be enough to boost the economy.

Concern about the financial sector has risen too. With the September 30 fiscal half-year deadline approaching, many banks are now scrambling to raise funds and finding that the cost of borrowing is rising sharply.

There has also been a subtle shift - and split - in foreign exchange policy. Senior officials at the Ministry of Finance have insisted recently that they wished to see a stronger yen. But some key officials at the bank have quietly concluded that a weaker yen may be needed to boost growth.

Though the central bank has tried to implement policies to tackle the banking crisis, it has been prevented from doing so by political deadlock.

Monetary policy is one area where it has clear control. "The bank cannot do much [to help], but this is one of the few things it can do," said one Japanese banker. "Maybe it hopes politicians will treat this decision as a good example."

## NEWS DIGEST

TUNG COMPLIMENTED ON SUCCESS

## Patten backs Hong Kong in fight to keep currency peg

Chris Patten, Hong Kong's last colonial governor, yesterday came out strongly in support of the territory in its battle to maintain its currency's peg to the US dollar. The new government "will continue to defend the peg and will do so successfully," he told the Royal Institute of International Affairs.

A run on the currency was his biggest worry as governor and that must be even more true for his successor, Tung Chee-hwa, he said. He complimented Mr Tung on his success in maintaining political consensus in favour of the arrangement despite the intense pressure on the economy. But Mr Patten, who warns in *East and West*, his latest book, that Hong Kong's attraction as a financial centre depends on the integrity of its markets, was more cautious about the government's recent intervention in the equity market.

Some critics have accused the government of turning its back on free-market principles but Mr Patten said he preferred to see them as a short-term tactic to deal with a short-term problem. "I'm sure we haven't seen a long-term change in strategy," he said. Peter Montagnon, London

NORTH KOREA MISSILE

## Japan presses for UN action

Japan was yesterday pressing the United Nations Security Council to take action following North Korea's launch last week of what Tokyo says was a ballistic missile that overflew Japan.

Diplomats said the likely outcome of Japan's efforts to censure North Korea would be a presidential statement of condemnation. The statement would be issued even if North Korea had fired a satellite, as it claims, because it did so without advance warning, over another country and presented a hazard to safety and transport, said diplomats.

Only China supports North Korea's claims, while diplomats said other members of the 15-nation Council were "sceptical" that the alleged satellite was anything but a missile. South Korea and the US say they have been unable to detect any transmissions from the "singing satellite". Pyongyang claims it is broadcasting "immortal revolutionary hymns" in Morse code. Laura Silber, New York, Michio Nakamoto, Tokyo and agencies

IMF AND PHILIPPINES

## Revised credit terms agreed

The International Monetary Fund and the Philippines have reached agreement on a revised economic programme for the country. The agreement was part of a revision of terms of a \$1.35bn standby facility originally agreed last March and sets out new economic targets for the Philippines.

In a joint statement, the IMF and the Philippines central bank said that as a result of a drought in the country and the continued turbulence in global markets, economic growth in 1998 was expected to be lower than expected in March but still positive and inflation slightly higher than expected.

Among the key targets agreed between the IMF and the Philippine government was a budget deficit of 1.4 per cent in 1998 and 0.6 per cent in 1999. The central bank said it planned to draw down \$260mn of the standby facility after the IMF board cleared the revised terms in October. It also planned to draw down \$1bn from loans from multilateral agencies. Tony Tassell, Manila

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INTERNATIONAL

# PC sales show strong global growth

By Paul Taylor in London

Worldwide personal computer sales show solid growth during the current quarter despite economic problems in Asia and financial crisis in Russia, according to figures yesterday from International Data Corporation.

The US-based market research firm said PC shipments were set to grow by 11 per cent in the third quarter

reflecting "a warming of the market overall". IDC's estimates confirm comments by senior industry executives meeting in Paris this week who said western Europe had become the IT industry's strongest growth area.

"Europe is our fastest growing area right now," said Scott McNeely, chief executive of Sun Microsystems. Earlier, Lew Platt, Hewlett-Packard's chief executive, said that his group

hoped strength in Europe would help offset the collapse of much of its business in emerging markets.

According to the IDC estimates, PC shipments will grow by 12.2 per cent in the second half following a 9.6 per cent increase in the first six months of 1998 when inventory problems in the US held back the figures.

"The inventory problems that plagued the first half of

the year have been largely erased, and we expect the market to perform better in the next six months with improved demand for low-cost and portable PCs," said Bruce Stephen, in charge of IDC's worldwide PC research. "However, while some market signals are better, IDC is still concerned about the spread of global economic problems and the attendant problems on PC demand."

PC sales in Western Europe are expected to grow by about 16 per cent in the current quarter compared with a year ago, driven by heightened interest in the internet, low cost PCs and a greater focus on the region by the big PC brands like Compaq, Dell and Hewlett-Packard.

US growth this quarter is expected to be around 14 per cent, buoyed by the strength of the low-cost PC market.

However sales in the Asia Pacific region, excluding Japan, are expected to fall again by about 3 per cent following similar declines in the first two quarters. Japanese PC shipments, which fell sharply earlier this year, are expected to post modest 2 per cent growth.

Among manufacturers, Apple which recently introduced its iMac machine, is expected to show particularly strong growth.

## UN report finds a richer world with a lot of poorer people

In spite of rising living standards, study says more than 1bn people cannot meet basic needs, writes Laura Silber

In spite of rising living standards worldwide, more than 1bn people cannot meet even their most basic needs, according to a United Nations report published yesterday.

"If the trends continue without change - not redistributing from high-income to low-income consumers, not shifting from polluting to cleaner goods and production technologies... not shifting priority from consumption to meeting basic needs - today's problems of consumption and human development will worsen," warns the United Nations Development Programme. Its ninth annual Human Development Report, which is based on statistics mostly from 1995, also touches on east Asia's economic problems. It says the crisis has caused the biggest setback to human development in the past year, reversing economic strides made by the region.

But the report says the crisis provides an opportunity for a re-assessment of domestic and international economic strategy and proposes that international agencies and regional development banks monitor "human indicators as seriously as they do economic and financial

While industrial countries have recorded a 2.3 per cent annual increase in consumption over the past 25 years, the average African household today consumes 20 per cent less over the same time period, it says.

The richest 20 per cent of the world's people in the highest-income countries account for 86 per cent of the total private consumption expenditures while the poorest 20 per cent consume just 1.3 per cent.

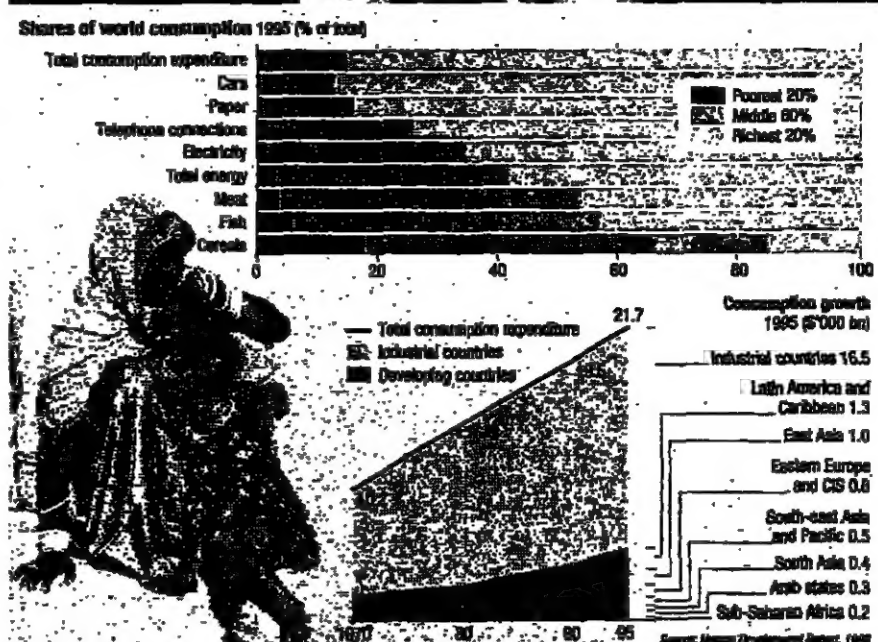
The wealthiest also consume 45 per cent of all the meat and fish, while the poorest 20 per cent consume just 5 per cent.

Among the 4.4bn people in developing countries, almost three-fifths live in communities lacking basic sanitation, almost a third are without drinking water, a quarter do not have adequate housing and a fifth are without access to modern health services.

Canada, France, Norway and the US ranked at the top of the Human Development Index, which measures life expectancy, education and literacy, and adjusted income.

Among developing countries, Cyprus and Barbados rank first. Of 174 countries, those ranking lowest on the HDI were Burundi, Mali, Burkina Faso, Niger and Sierra Leone.

Over the past 35 years life expectancy has increased in developing countries from 46



to 62 years. But in Uganda, Zambia and Zimbabwe, HIV/AIDS has reduced the average to less than 50 years.

As a reminder that all are not rich in the rich countries, this year's report introduces an index for poverty in industrial countries. This measures the extent of deprivation, the proportion of people excluded from progress in longevity, education and a decent living standard. It reveals that between 7 and

17 per cent of their population is poor by this definition. The US ranked first in average income, according to purchasing power parity, but registered the highest human poverty.

While the report notes the wide gap in consumption patterns, Gustave Speth, UNDP administrator, says: "We are not taking an ascetic, hair-shirt approach to consumption. Consumption growth has been of

enormous benefit to the people of the world. Literacy has gone up, infant mortality has come down, life expectancy has increased. More people than ever before in history are leading richer, more fulfilling and certainly more comfortable lives.

"But despite the fact that there has been this enormous surge in consumption, not everybody has been invited to the party," he said.

### NEWS DIGEST

#### HAZARDOUS CHEMICALS

## International treaty will impose trade controls

Ministers and top officials from nearly 100 countries meet in Rotterdam today to sign an international treaty that will ban the import of hazardous chemicals unless agreed by the importing country.

The United Nations convention on hazardous chemicals and pesticides, agreed by governments last March, will make mandatory the existing voluntary procedure of Prior Informed Consent, now used by more than 150 nations.

The UN Environment Programme and the UN's Food and Agriculture Organisation, the treaty sponsors, say it will protect millions of farmers, workers and consumers in developing countries and reduce threats to the environment. The treaty sets up trade controls and information exchange procedures that will enable governments to prohibit imports of chemicals they cannot safely manage and will require exporting companies to provide extensive information on the chemical's potential health and environmental dangers.

At the outset the convention will cover 22 pesticides, among them aldrin, DDT and lindane, and five industrial chemicals. Some of these substances are already banned in the west but are still exported to developing countries. Many more chemicals are likely to be added. Frances Williams, Geneva

#### MIDDLE EAST

## US envoy to hold talks

Dennis Ross, US Middle East envoy, yesterday returned to the region in a bid to break the 18-month deadlock in the Israeli-Palestinian peace negotiations. He was due last night to hold talks with Yasser Arafat, president of the Palestinian Authority, and later today with Benjamin Netanyahu, Israeli prime minister who yesterday postponed his visit to Georgia because of mild flu.

Some coalition partners have threatened to pull out of the government if Mr Netanyahu accepts a US proposal to hand over 13 per cent of West Bank land to the Palestinians. Mr Arafat has already accepted the US plan while Israel has insisted that of the 13 per cent, 3 per cent be held in a nature reserve but under Israeli security arrangements. Judy Dempsey, Jerusalem

#### IRAQ SANCTIONS

## UN urged to switch tack

The US and Britain last night were pressing the Security Council to adopt a resolution which would suspend sanctions reviews on Iraq while introducing a comprehensive review of policy towards Baghdad. The review, said western diplomats, would be a "carrot" - he writing of a "clear road map" directing Iraq how to secure lifting of sanctions if it renews co-operation with UN weapons inspectors.

But, according to diplomats, a "stick" is also contained in the resolution. If Iraq refuses to work with the UN mission responsible for dismantling Baghdad's arsenal of deadly weapons, then sanctions reviews would be suspended indefinitely. The UN imposed sweeping sanctions, including an oil embargo, after Iraq invaded Kuwait in August, 1990. Laura Silber, New York

TIME DOWN IN THE

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## THE AMERICAS

CURRENCY CRISES US DEPUTY TREASURY SECRETARY SPEAKS OUT AGAINST WITHDRAWING FROM GLOBAL SYSTEM

## Summers warns against protectionism

By Nancy Dunne in Washington

Larry Summers, US deputy treasury secretary, yesterday warned countries ravaged by currency crises not to reject the rules of international capitalism.

"It would be a catastrophe if countries were to develop the idea that somehow withdrawing from the global system was right and that building the foundation for a

market economy was wrong," he said at a Federal Deposit Insurance Corporation conference.

The warning seemed to be directed at Malaysia, which has imposed capital controls, as well as Russia, which has imposed a moratorium on some of its foreign debts.

"Countries that choose to embrace unilateral action as a substitute for reform and co-operation hurt the world

system and, by severing ties to the world markets, hurt the prospects of their own citizens most of all," Mr Summers said.

He said he did not expect the meeting next Monday of finance officials of the Group of Seven industrialised countries to find solutions for Russia's problems. Russia should resolve its political uncertainties before other nations can "calibrate an

international response", he said.

The Russian banking system has been in turmoil since the government last month allowed the rouble to depreciate, Mr Summers said that there was no alternative to a stable currency for Russia "and that means financial practices that make possible a stable currency".

Countries had to shape their own destinies, he said.

Russia faced "profound challenges that first and most of all are political". Although the US was prepared to help, Russia itself should act to create "sound money, a rule of law, enforcement of property rights and contracts... prerequisites for economic success".

Mr Summers said the Asia crisis had pointed to the need for strong supervisory banking regimes as well as

the need to act swiftly when troubles occurred. "We have seen in recent months in Asia... the danger of opening the capital account when incentives are distorted and domestic regulation and supervision is inadequate." The solution to the crisis was resumed lending, he said. Asian governments had to spend "large amounts of public funds" to stimulate their economies.

## SEC chairman brings in new bond rules

By Tracy Corrigan in New York

Arthur Levitt, chairman of the Securities and Exchange Commission, the main US regulatory agency for securities, yesterday announced measures to improve transparency in the US corporate bond market.

In New York Mr Levitt said the National Association of Securities Dealers (NASD), the self-regulatory organisation for brokers and dealers, would implement new rules requiring dealers to report all transactions for immediate price dissemination.

Mr Levitt noted the economic significance and size of the US bond market, where trading volume of \$35bn a day dwarfs the \$28bn of stocks traded daily on the New York Stock exchange.

But he said debt markets had historically lagged behind equity markets in making price information available to the public. The government bond or Treasury market was characterised by high-quality pricing information for investors, but price transparency in the area of corporate bonds

was "simply not up to par."

He said NASD would create a database of corporate bond transactions, allowing regulators to "take a proactive role in supervising the corporate debt market," rather than merely reacting to investors' complaints.

The database would be used to help run a surveillance programme designed to detect fraud.

With the new measures, Mr Levitt said he expected corporate bond market transparency would soon surpass that of the municipal bond market, which had substantially improved since price reporting rules were tightened in 1995.

He said he was worried by "anecdotal evidence of the possible misuse of inside information in the high-yield market".

Mr Levitt said that participants in syndicated loans who attended meetings with borrowers' management and banks should not use or leak information, which could affect the price of the company's bonds. He described this as "unacceptable" and termed it "insider trading".

## Alabama buzzes with the sound of global business

The state has succeeded in luring jobs from more costly areas and still cannot find enough workers, writes Richard Wolffe

For two decades, the acres of concrete were largely abandoned, and the local economy could not recover from the loss of 17,000 jobs. The huge hangars of the former US air force base, which once housed B-7 bombers, were only dusted down as film sets for movies such as the science fiction blockbuster, *Close Encounters of the Third Kind*.

Today, Brookley Airport in Mobile, Alabama, opens its doors to a different kind of flying visitor. Despite the scorching Gulf of Mexico heat, its hangars are buzzing with the sound of engineers refitting aircraft for the US and international markets.

Now the managers of Mobile Aerospace Engineering (MAE) face an unforeseen problem. They cannot find enough workers. The Singapore-owned company, with US\$100m in revenues, employs 850 staff. Ronnie Koh, MAE's president, says he would raise his workforce to more than 1,000 if he could only find the people. "The economy is so strong, there are very few people out of work. Every airfield with an aircraft needs an engineer, and the bigger companies pay higher salaries and give better benefits," he adds.

The skilled labour market

is now so tight that MAE sponsors local high school children, some as young as 15, to attract them in due course to work at the former airbase. The company believes local recruits will accept lower salaries than it would have to pay outsiders, to stay close to friends and families.

Mobile's economic revival is a reflection of how Alabama, along with other

**'Few businesses of any size have isolationist mentalities now'**

states in the south-eastern US, is thriving in the global economy. Alabama has largely embraced international business, despite its reputation as a backward-looking state with a history of racial conflict in the civil rights struggle of the 1960s.

Its sales pitch is simple. With the combination of a relatively low-cost workforce, weak unions, low taxes and a homespun way of life, the state has lured manufacturing jobs from more costly areas both in the US and internationally.

Since 1993, Alabama has seen the number of jobs rise by 12 per cent, from 1.85m to 2.06m. The state's unemployment rate stands at 3.6 per cent, below the national average of 4.5 per cent.

Further along Mobile Bay from the airport, the state docks are beginning a long-overdue \$200m renovation. The hope is they will become a key trading point between the northern and southern countries of the North American Free Trade Agreement.

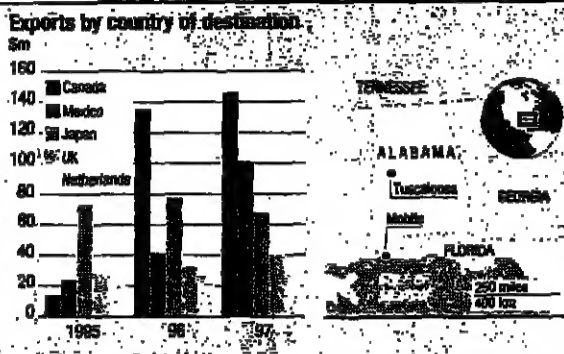
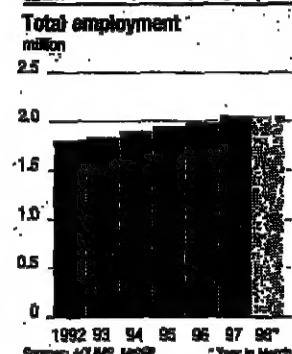
The docks investment is based on thriving trade between Alabama and Mexico, as exports have increased fivefold since 1986, from \$340m to \$1.6bn last year. One train alone brings 450 Ford Winstar minivans from Kentucky for export via the port each week, and imports another 450 Mexican-built Chrysler Dodge Ram trucks.

At the edge of the docks stands a vivid example of how the region has used its low-cost economy to advantage. British Steel shipped an entire iron plant - lock, stock and barrel - from Hunterston in Scotland two years ago. The plant had been mothballed since 1980 in the UK, but has now been in production in Alabama for almost a year.

The trade in jobs is a

## Alabama: economic take-off

Ronnie Koh at Mobile Engineering in Mobile, Alabama



two-way process in the Gulf region, and many Alabama jobs have moved out of the US altogether to the lower-cost countries of Latin America. Since 1995, the state has lost 20,000 jobs in its traditionally strong textile industry.

The result is a dizzying churning of factories and jobs across the state.

In 1996, Lee Apparel moved its sewing business from low-cost Mexico to lower-cost Alabama, with the loss of 500 jobs. A year later, the city had filled the former Lee factory with a computer assembly business called Racer Computer, from Phoenix, Arizona. The new com-

pany only employs about 100 people, but plans to increase its workforce to 400 over the next three years.

The state's largest success is without doubt its new Mercedes-Benz plant. The Tuscaloosa site attracted the car maker with a typical Alabamian combination of a highly skilled workforce at relatively low cost, and the chance to build a new management culture outside Germany, without union involvement. At its launch, the car factory received 45,000 applications for 1,500 jobs building the new M-class sports utility vehicle.

Elmer Harris, president and chief executive of Alabama Power, the regional electricity company, says: "Companies like Mercedes have changed the profile of Alabama internationally. I recently came back from a trip to Asia, and not a single person asked me where Alabama was. They knew where it was because of the positive publicity the state received when Mercedes came in."

"The biggest issue facing our businesses now is the need to be global. There are few businesses of any size with isolationist mentalities now. The south-east is the world's preferred economy in the US, and Alabama is right in the centre of it."

## Malan defends Brazil budget spending cuts

By Jonathan Wheatley in São Paulo

Spending cuts announced by the Brazilian government this week represent a fresh commitment to tough fiscal management and go beyond a short-term reaction to the global financial crisis, Pedro Malan, finance minister, said yesterday.

His comments followed a negative response to the cuts on financial markets. Analysts said they failed to tackle Brazil's overall fiscal deficit, currently about 7 per cent of gross domestic product, and were aimed chiefly

at absorbing the extra debt servicing cost caused by Tuesday's increase in the central bank's prime lending rate from 19 per cent a year to 29.75 per cent.

"Some people were expecting an absolutely bloody set of wide-ranging cuts, which would have had no credibility," Mr Malan said in an FT interview. "What we have introduced are hard, strong measures."

These included a legal commitment to produce a federal primary surplus of at least R\$5bn (US\$4.5bn) this year, up from a previous target of R\$4.3bn.

## Panama eager to put the squeeze on canal

Harder commercial edge is planned, says James Wilson

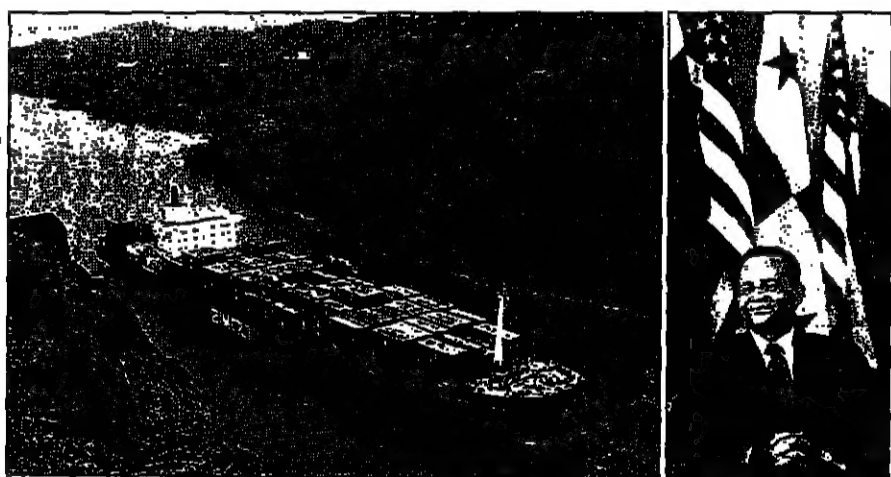
Balboa is a town like few others in Panama. The streets are wide, lawns manicured, and the atmosphere is one of suburban calm forged from the unruly tropics. Even the avenue near the imposing headquarters of the Panama Canal Commission (PCC) was laid out to measure - 1,000ft by 110ft, mirroring the dimensions of the canal's enormous lock chambers a couple of miles away.

Everything about this American-built community suggests order and precision - qualities the PCC, the US government agency that runs the canal, holds dear as it goes about the task of shepherding more than 13,000 ships through the waterway every year.

Below the surface, however, this ordered existence is being shaken up as the PCC prepares to hand over at the end of 1999 the running of the canal to a new, Panamanian, successor.

Signs are emerging that the incoming Panama Canal Authority (PCA) will be running a leaner, fitter organisation than the PCC, bringing a harder commercial edge to the colonial gentility of past canal affairs.

"Change should be embedded in our system," says



A programme to widen the narrowest parts of the canal will be overseen by Alberto Alemán (above)

Alberto Alemán, a Panamanian engineer who has held the senior post of administrator at the PCC since 1996, and who was last month appointed to head the PCA until 2005.

Efficiency and reliability are the watchwords as the canal tries to squeeze more capacity out of its systems to cope with a steady increase in traffic. This year tolls for small boats were increased to reflect the bottlenecks they cause for bigger ships.

A \$1bn modernisation programme is under way, including a widening of the canal's narrow central section. When completed in 2002 it will allow two-way traffic for even the largest ships - the last option to boost the canal's capacity before a costly extra lane of locks is considered.

Further efficiency gains are being sought from a "manpower study" to look at staffing arrangements - which has aroused suspicion of a wave of redundancies among the 8,000-strong workforce.

Mr Alemán says the restructuring aims at making the organisation more corporate, enabling decisions to be made quicker. "We have to analyse our man-

power and our processes. In an organisation that was not accustomed to change, it brings uncertainty."

The PCC is also hiring specialists to explore what it calls a "market-based" toll system, saying it has been "stirred to operate in a more business-like manner".

Canal users are unlikely to mind a more business-like approach, as long as it does not extend to prices being raised and profits being milked out of the canal instead of going into improvements.

Roy Newall, a shipping agent in the port of Colón, says maintenance and costs - tolls have risen 16 per cent in the last two years to fund the modernisation - are among shippers' main worries. "Panama is not noted for its maintenance programmes," he says.

Mimmo Scannapieco, vice-president for ocean freight at Continental Grain, a big user of the canal, says: "We do not see any reason why [the canal] should not go on as it has in past years. It is one of the most important sources of income [Panama] has, so it is in their interests not to create a situation where the shipping community feels it is

better to take other routes."

According to the PCC, the canal was worth more than \$220m to Panama last year. That includes wages and spending on goods and services as well as more than \$100m - mostly toll revenues - paid to the state under the terms of the 1977 canal treaties.

The PCA will continue to make toll payments to the government, and Mr Alemán says a further \$30m a year will be saved on benefits the PCC paid to its US workers.

The handover is less than 500 days away - a landmark Ernesto Pérez Balladere, Panama's president, marked by suggesting the extra savings should go into a fund to improve education.

Opponents said his words were aimed more at boosting his campaign for a change in the constitution to enable him to serve another five years as president. In the end, he lost August's referendum on the constitutional changes and, with it, his chance of being in charge when the canal is handed over.

But political debate is sure to continue over how Panama can make best use of the resources the canal will generate.

## Mexico prepares for energy sell-offs

By Lucy Conger in Mexico City

Preparation for a partial sell-off of a portion of Mexico's petrochemical industry will start next week with publication of the bidding procedures for the Morelos petrochemical complex, according to Luis Téllez, the country's energy minister.

The complex in the state

of Veracruz is the first and most modern of seven plants to be put up for sale over the next few months. Private investors may acquire a minority stake of no less or more than 49 per cent in each of these plants.

The sell-off is aimed at raising capital to modernise Mexico's petrochemical plants which over the last few years have lacked

much-needed investment.

To raise adequate capital for new investment in the Morelos plant the government has pledged to put up \$51m, which private investors will match with \$49m.

A similar scheme will be devised for the other plants. Under the quasi-privatisation scheme the plants will have greater autonomy in budgetary control than

other state companies.

The partial sell-off is the result of a political compromise reached in October 1996 with Congress which staunchly resisted privatisation of the oil industry. Legislators agreed to a sell-off of a minority stake in the complexes that produce what Mexican law categorises as secondary petrochemical products.

FINANCIAL TIMES

No FT, no comment.



# SEC chairman brings in new bond rules

SEC chairman brings in new bond rules

SEC chairman brings in new bond rules

# Malan defends budget spending

Malan defends budget spending



for energy self

## Bid to avert threat of 'cyber trade war'

By Guy de Jonquieres

The US and the European Union appear to be closer to agreement on an outline peace formula to avert the threat of the world's first cyber-trade war.

Both sides are cautiously optimistic that recent US proposals could provide a basis for settling, at least temporarily, a lengthy dispute over the EU's data protection directive.

The directive, intended to safeguard individual privacy, empowers EU authorities to cut off after October 25 exports of many kinds of personal information to countries which they judge not to have adequate data protection arrangements.

Brussels is not yet satisfied that the US meets the directive's standards. Washington, which calls the EU law heavy-handed and bureaucratic, has threatened to challenge it in the World Trade Organisation if it is used to sever transatlantic data flows.

Companies on both sides of the Atlantic say such action would seriously disrupt trade. They complain that uncertainty about how the directive will be applied is complicating business planning and could impede the growth of electronic commerce.

Hopes of a breakthrough have been raised by US government support for recent efforts by leading US companies to establish strong voluntary self-regulation of consumer services they provide electronically, primarily on the Internet.

The plan involves creating "safe harbours" for corporate websites which subscribe to a common code of conduct for protecting personal privacy. The code would be enforced by independent watchdogs, such as the US Better Business Bureau.

A European Commission official said the scheme seemed in principle "a reasonable approach", which could lead the EU to a "presumption of adequacy" in assessing US data protection rules.

However, any agreement would depend on the US providing fuller details and assurances about how the scheme would work. In particular, the EU wants Washington to spell out precisely the proposed standards for data protection "harbours", as well as more information about how companies plan to comply with them.

A senior US official said he hoped a settlement could be agreed in principle with the EU early next month. However, Commission officials were less confident, saying EU member states must first discuss and approve any proposed agreement.

They also said a settlement would not permanently remove the threat of action under the directive, which could be revived if US data protection proved ineffective.

The US plan is intended as much to placate domestic political and public opinion. Washington has been thrown on the defensive by several recent reports, which have condemned existing US data protection safeguards as inadequate.

President Bill Clinton's administration has warned companies that unless they adopt higher standards, Congress will impose them through legislation. Many large US companies have responded by forming alliances to promote improved self-regulation.

Paul Taylor adds: Internet users should be charged on a "pay-as-you-go" basis and have to purchase e-mail stamps before sending electronic messages, Bob Metcalfe, a US technology guru, has urged.

Mr Metcalfe, who invented the Ethernet computer communications protocol and founded 3Com, the network equipment group, told delegates attending an IT conference in Paris that new charging mechanisms were required to encourage more efficient use of the Internet and fund the building of the Internet infrastructure.

He added that forcing e-mail senders to purchase electronic stamps would help reduce "junk mail" and "spam", but conceded such charges could not be introduced until viable micro-payment systems had been developed.

## FARNBOROUGH AIR SHOW AEROSPATIALE MOVE NOT ENOUGH TO WIN OVER EXECUTIVES

# Dasa chief calls on Paris to go further

By Michael Stapiniker and Alexander Nicoll

How much pressure should be put on the French government? This is the question facing German and British executives as they attempt to restructure the European aerospace and defence industry.

Manfred Bischoff, chief executive of Daimler-Benz Aerospace (Dasa), and one of the key figures in the transformation of Europe's aerospace industry, accepts that the French government took a vital step by announcing earlier this year that it would partly privatise Aerospatiale.

The decision to merge Aerospatiale with Matra, the defence arm of the privately owned Lagardere group, partly opened the door to the formation of a European Aerospace and Defence Company (EADC), Dasa and British Aerospace had said they would not be prepared to include Aerospatiale in the EADC if it remained state-owned.

Mr Bischoff accepted the French government would not necessarily react to such a merger by immediately agreeing to reduce its Aerospatiale stake.

"Always, when someone is left out, there's a counter-reaction. I doubt that the first thing [Paris] will do is fall into line. We shouldn't underestimate that there are a lot of emotions around."

But, he added, if the French were genuinely committed to the creation of the

choff said in an interview. But, he added, Paris needed to reduce its stake in Aerospatiale by far more. He would not specify what state holding would be acceptable, but said it had to be small enough for the government to have no significant influence over the EADC.

"If there's a minimal shareholding, I wouldn't care. What I wouldn't accept, and what my shareholders wouldn't accept, is to have a joint company with the government. The agenda of a government is different - and with good reason. They don't want you to lay people off, they don't want you to close factories."

Dasa and BAE have shown some impatience with the speed at which the French are moving and there have been suggestions that the German and UK groups might merge, leaving Aerospatiale on the sidelines.

Mr Bischoff accepted the French government would not necessarily react to such a merger by immediately agreeing to reduce its Aerospatiale stake.

"Always, when someone is left out, there's a counter-reaction. I doubt that the first thing [Paris] will do is fall into line. We shouldn't underestimate that there are a lot of emotions around."

But, he added, if the French were genuinely committed to the creation of the

EADC: they should not regard a potential Dasa-BAE merger as a threat. "If it's obvious that it's the first step towards the creation of the EADC, why should that be seen as hostile to anybody - if all the potential partners believe that we want to create the EADC?"

Dasa, BAE and Aerospatiale will have to decide how to include companies such as Alenia of Italy, Saab of Sweden and Casa of Spain in the EADC. They will also have to determine what relationship the EADC should have with electronics companies such as GEC of the UK and Thomson of France.

He said integrating the electronics companies fully into the EADC would create problems - for example, GEC was an important Boeing subcontractor - but that one answer might be for the EADC to have joint ventures with the electronics groups.

How long does France have to privatise Aerospatiale fully? "Every time we mention any timetable, we are accused of blackmailing our French friends. But are we going to wait 30 years? There's a lot of competitive pressure from across the Atlantic," Mr Bischoff said.

"If we wait too long, we will be pushed back in technology and market share and to pick that up takes added effort, money and time."



Manfred Bischoff: 'The agenda of a government is different - and with good reason. They don't want you to lay people off'

## France to order Rafale next year

Jean-Yves Helmer, head of the government armaments agency, said yesterday the government was still working "on the basis of 48 aircraft, with the 'possibility of both firm sales and options'."

The government has already ordered 13 aircraft for delivery in 2003.

## ARMS PROCUREMENT TREATY SIGNED BY FOUR NATIONS

# Boost for European weapons agency

By Alexander Nicoll, Defence Correspondent

Defence ministers of Britain, France, Germany and Italy yesterday signed a treaty giving legal status to Ocas, the embryonic European arms procurement agency.

George Robertson, UK defence secretary, said at the Farnborough Air Show that

the treaty was a step towards more effective, businesslike and timely procurement in collaborative programmes.

Eurofighter combat aircraft and Horizon frigates, two of the largest joint procurements, are not to be handled by Ocas. However, it will manage procurement of armoured personnel carriers for Britain, France and Germany.

Officials said the treaty would give an important boost to Ocas, which has been slow in getting under way.

Staff seconded to the agency would now be able to take decisions in the agency's interests rather than simply representing

their own countries. Development of Ocas would also permit a shift away from strict application of the "juste retour" principle under which the share of work of programmes is allocated depending on a country's purchases.

Instead of applying work shares on specific programmes, Ocas could decide to allot work across the spread of programmes it handles, permitting more efficient procurement.

Mr Robertson said: "Ocas offers us the opportunity to avoid reinventing the wheel every time work starts on a collaborative equipment project."

Other nations are expected to join the agency later.

## CONTRACTS

# Airbus wins big orders from UPS and GE unit

By Michael Stapiniker

Airbus Industrie had the best of the third day of the Farnborough air show, with large orders from two US customers - United Parcel Service and General Electric Capital Aviation Services (Gecas).

The UPS purchase of up to 80 A300 aircraft was particularly cheering for Airbus, as it was its first from the US delivery company. Noel Forgeard, Airbus managing director, said the order represented a substantial victory for the European consortium because UPS was the world's largest package delivery company.

UPS, which is based in Louisville, Kentucky, has placed firm orders for 30 of

the aircraft, which will be powered by either General Electric or Pratt & Whitney engines, and has taken options on a further 50.

Gecas, a unit of GE Capital, placed firm orders for 30 narrow-bodied A320 aircraft and took options on a further 10. The aircraft will be powered by CFM engines, produced by a joint venture between GE and Snecma of France.

The Airbus successes follow orders earlier in the week from Emirates, the Dubai-based airline, and the International Lease Finance Corporation of the US.

Denis Nayden, GE Capital's president, said his company had ordered the aircraft, which will be delivered between 2003 and 2006, in

spite of some industry fears that the aviation business might be facing a downturn.

Mr Nayden said: "We've been in this business a long time. There's no question that this industry is cyclical and it's difficult to call the lows and peaks. Will there be market disruptions? Yes, absolutely. But we are not in this business just for 1998 or 1999. We're in this business for the long term. The very nature of these assets is that they are long term. You do not have to make a panic decision when you consider the market over a long period of time."

Boeing announced an order for 12 Boeing 767s from Gecas and said Scandinavian Airlines System had ordered five 737s.

# WTO drawn into row over anti-Burma law

By Neil Stockley in Brussels

The European Union and Japan will this month call for a World Trade Organisation disputes panel over a controversial Massachusetts state law barring procurement from companies trading with Burma.

The call for a WTO panel is expected to be made on September 22, and follows three sets of inconclusive talks with the US over the issue.

It comes as the National Foreign Trade Council (NFTC), representing 580 companies, including many of the biggest US multinationals, seeks to overturn the 1996 Massachusetts law at a federal court in Boston. The law effectively bars companies doing business with Burma from bidding for public contracts in Massachusetts, worth about \$2bn a year.

Papers filed in the federal court this summer by the NFTC suggested 346 companies were affected, and Apple, the computer group, has cited the law as one reason for withdrawing from

Burma. The NFTC argues that the law violates the US constitution, which says making foreign policy and regulating foreign trade are federal rights.

The European Commission, the EU's Brussels-based executive arm, first complained to the WTO about the law in June 1997, with Japan joining a month later.

They argue that the law breaches the WTO's government procurement agreement, which is designed to prevent procurement decisions being based on political factors.

"The US had promised there would be amendments, but these simply haven't happened," said one Brussels official yesterday.

The call for a panel also reflects growing concern in Europe over the increasing tendency of the US to impose sanctions, often with extra-territorial effects.

The EU and US narrowly avoided a damaging clash this year over the Helms-Burton anti-Cuba law, penalising companies "trafficking" in assets confiscated by the Castro regime, and the

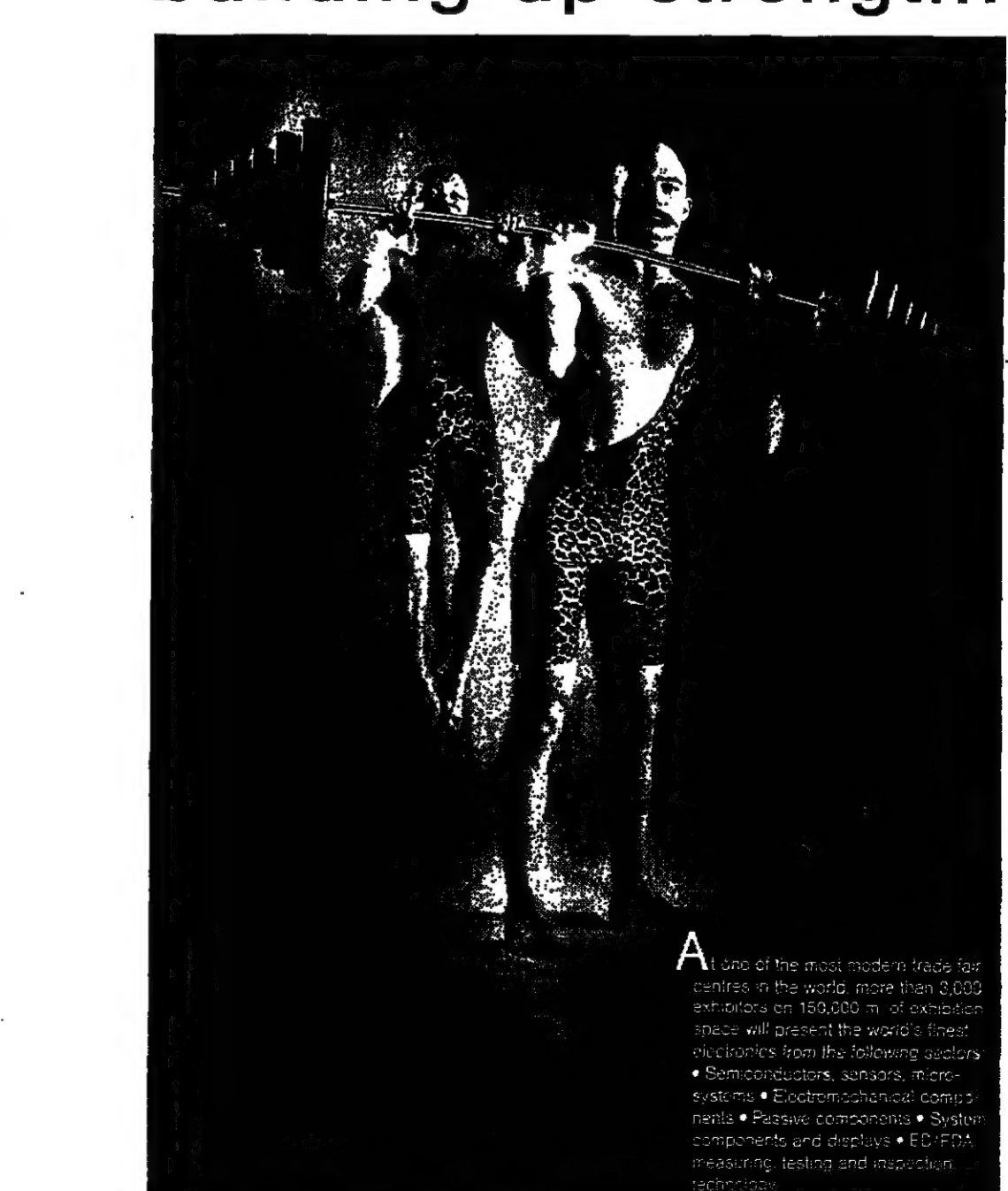
Iran-Libya Sanctions Act, calling for sanctions against companies investing in the oil industry of those two countries.

Massachusetts insists the law is not unconstitutional, and has called the NFTC action an attack on state sovereignty by wealthy companies motivated by greed. It points to the success of sanctions in forcing political change in countries such as South Africa.

The UK has called on its EU partners to take further steps to support Burma's opposition leader, Aung San Suu Kyi, including fresh discouragement on trade, investment and tourism and new visa restrictions for Burmese citizens, adds Peter Montaignon, Asia Editor, in London.

Derek Fatchett, UK Foreign Office minister, condemned the latest detentions of opposition figures. He said he had raised with other EU countries the possibility of a top-level mission to see Ms Suu Kyi and other opposition figures and to establish with the regime the possibility for dialogue.

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## NEWS DIGEST

### ASIA'S MOTOR INDUSTRY

# Fledgling vehicle makers 'facing bleak future'

Asia's financial crisis and its aftermath will spell "the death knell" for the fledgling vehicle industries of Taiwan and the Philippines and ravage the automotive components industry of much of the region, according to a new analysis by the Economist Intelligence Unit. Among the region's vehicle companies most at risk are Proton of Malaysia, most assemblers in India, including Maruti; Kia and Daewoo in South Korea and all assemblers in Thailand and Indonesia, as well as Taiwan and the Philippines, according to the study. It projects that the region's vehicle manufacturing output will plunge by 30 per cent and sales by 37 per cent. Capacity utilisation in the Philippines this year has reached only 13 per cent, the study says. "There is a period of massive consolidation ahead, with every country in the region facing the prospect of rationalisation, closures and cutbacks," John Griffiths, London.

"The Automotive Sectors of Asia-Pacific: After the Crisis. EIU, 15 Regent St, London SW1Y 4LR. \$1,045

### DIGITAL COMMUNICATIONS

# Pirelli wins \$240m US order

Pirelli, the Italian tyre and cable group, yesterday won a \$240m order to provide optical cables and systems for a US coast-to-coast high capacity digital communications network. Digital Teleport Inc (DTI) of St Louis, Missouri, said Pirelli would supply optical systems and cables to complete its new coast-to-coast digital fibre optic network taking in 37 US states.

The US deal follows a string of other optical cable and systems contracts won by Pirelli from leading international telecom operators including British Telecom, Deutsche Telekom, France Telecom and Telstra in Australia. The Italian company has increasingly been focusing on the development of optical fibres and photonics technologies for communications networks and superconductivity for power transmission to balance its more mature traditional tyre activities. Paul Betta, Milan

### WORLD FISH STOCKS

# Subsidies 'breach trade rules'

More than 90 per cent of the billions of dollars in subsidies granted to the world's fishing fleets are likely to be in violation of global trade rules, according to a report released yesterday by the World Wildlife Fund.

Most of the subsidies are supporting fleets which are taking a dangerous toll on fish stocks around the world. Remote, unprotected fisheries off the coast of developing countries are being particularly hard hit.

Government subsidies are estimated conservatively to total 20-25 cents for every dollar earned by fishermen worldwide, said David Shorr of the WWF. "With 70 per cent of the world's most valuable fisheries overfished or nearly so, governments continue to promote an industry whose size and practices are a recipe for economic ruin."

Some of the subsidies are permitted under World Trade Organisation rules. In fact, some - such as vessel buy-back programmes and worker retraining - are designed to reduce the stress on the world's fish stocks. Nancy Dunne, Washington



## BRITAIN

INDEPENDENT TRADERS GROUP SAYS CONSUMERS COULD BUY VEHICLES AT PRICES AS MUCH AS 30% LOWER IF CURBS EASED

## Court to probe 'grey' car imports limit

By John Griffiths in London

Independent car traders have won the first round of a High Court action seeking changes in government regulations restricting volumes of unofficial 'grey' car imports to the UK.

The court has granted an application by the British Independent Motor Trade Association for an urgent judge's review of the rules.

Bimta - comprising dozens of independent, non-franchised car traders - claims the government's spe-

cial vehicle type approval regulations are keeping UK car prices higher than can be justified. This is because they restrict to 50 per cent the maximum number of any single model which can be imported.

Bimta claims consumers could buy new and used car imports up to 30 per cent cheaper if the restrictions were lifted for independent traders.

The government issued a consultative document last year indicating it was considering lifting the numeri-

cal limits on imports under SVTA. But Gavin Strang, then a transport minister, kept the limits in revised regulations published in May.

They are again being reviewed by John Reid, the new minister, and Bimta said yesterday it believed there was a prospect of the limits being lifted before the court review.

Car makers and franchised dealers, alarmed at the prospect of such vehicles undermining the structure of the UK car market, are voicing

bitter opposition to such imports.

They say such cars are full of risks for consumers, with different specifications and potentially much lower resale values.

Mitsubishi's UK importer has told its dealers to raise parts and service prices sharply to owners of grey imports. Other makers have sacked some of their franchised dealers, themselves tempted to dabble in the trade.

So-called 'grey' and 'parallel' car imports are

already accounting for 100,000 sales a year in the UK. Most of these are parallel imports - purchased by motorists exercising their right to buy fully EU type-approved new cars from franchised dealers elsewhere in the EU. The remainder is made up of personal imports - which are not subject to type approval regulations - and the 5,000-8,000 cars a year currently imported by traders under the SVTA regulations.

"We have no quarrel with parallel imports," Christo-

pher Macgowan, chief executive of the Retail Motor Industry Federation, said yesterday. But he said it was "the height of folly" to allow the 'grey' trade to continue.

Cars shipped under SVTA regulations do not conform to EU type approval. But they can be admitted after undergoing a £150 approval process at a network of government test centres. If the numerical restrictions were lifted, industry analysts say there could be a huge upsurge in the volume of such sales.

## All eyes on referee in match between United and BSkyB

Trade minister Peter Mandelson loves soccer but he is also a friend of Rupert Murdoch's daughter, says David Wighton

Peter Mandelson, the chief industry minister, neatly sums up the dilemma he will face over BSkyB's bid for Manchester United, the UK's richest soccer club. "I love football and I am a great supporter of those who broadcast it."

All Labour politicians have to say they love soccer - even if they much prefer the Royal Ballet - and there is no doubt about Mr Mandelson's support for the satellite broadcaster.

But Mr Mandelson will have the final say on whether to allow the £250m (£1bn) bid to proceed, a judgment that is bound to upset either soccer fans or BSkyB. No wonder he privately questions whether politicians should take such decisions at all.

Gordon Brown, the chancellor of the exchequer, has already signalled the government's interest in reviewing UK merger policy, which by international standards gives politicians unparalleled discretion.

Mr Brown said in a recent Financial Times interview that the government wanted to look at taking the politics out of competition policy, as it has done for monetary policy.

The simple political attraction of such a move is the same as that for contracting out the setting of interest rates: the government can distance itself from unpopu-

lar decisions. It would also free ministers from any accusations that they are compromised by conflicts of interest. Some critics claimed - when he was appointed to the trade and industry department in July - that Mr Mandelson would be forced to step aside from a number of merger decisions because of his responsibility for London's Millennium Dome.

But government lawyers advised that he would not have to hand over consideration of British Airways' proposed link-up with American Airlines, despite BA's important support for the dome. Arguably, Mr Mandelson's links with BSkyB, also a dome sponsor, are closer still.

Mr Mandelson is a friend of Elisabeth Murdoch, managing director of BSkyB, and of Tim Allan, BSkyB's head of corporate communications and a former aide to the prime minister. Ms Murdoch is the daughter of Rupert Murdoch, chairman of News Corporation, the biggest stakeholder in BSkyB. City opposition lawyers say there is a *prima facie* case for Mr Mandelson to step aside.

Government lawyers would need to decide whether Mr Mandelson's verdict on the bid could be challenged by judicial review. Following a House of Lords decision in 1993, this



Peter Mandelson at the Farnborough air show this week. PA

could proceed only if a judge decided there was "real danger of bias". Mr Mandelson's links with BSkyB might not fail this test, but a perception of bias might remain.

John Redwood, the chief industry spokesman for the opposition Conservative party, insists that Mr Mandelson's stepping down would not solve the problem.

"The question is, which minister would you get to do it, since the whole government is too close to Mr Murdoch?" he says. But, despite such qualms, there would be unease in government about

removing political influence. Nigel Farr, a competition expert at Ashurst Morris Crisp, a London law firm, has some sympathy for this view though he adds that politicians are brought in too early in the process.

The Independent Office of Fair Trading scrutinises any bid worth more than £70m. But the minister can ignore the OFT's advice on whether the bid should be investigated by the Monopolies and Mergers Commission. The minister is not invariably bound by the MMC verdict.

BSkyB bid, Page 20

## E-commerce 'gap' must close, says minister

By David Wighton, Political Correspondent

Peter Mandelson, the chief trade and industry minister, yesterday pledged to use the government's market power to boost electronic commerce and make the UK Europe's "digital laboratory".

He said the government had agreed to make 30 per cent of all its routine purchases electronically by 2001. He also promised early legislation to tackle some of the legal problems surrounding retail electronic commerce.

But he told a London conference that Britain had to overcome cultural barriers to the take-up of digital commerce that were "a real threat of UK competitiveness". He pointed to surveys showing more than a third of people in the UK cannot see the benefits of digital technologies - more than twice as many as in the US.

"Too many UK businesses are lagging behind," he said. "Only 49 per cent of UK employees work for firms with internet access - compared with 73 per cent in Japan. And only 13 per cent of UK businesses with a web site use it for on-line trading. Twenty-nine per cent do so in the US."

Mr Mandelson used his first big speech since his appointment to call for a drive to ensure the UK is a world leader in electronic commerce. "By the end of this parliament, I want the UK to be globally recognised as the best environment in which to trade electronically," he said.

The government had an important role in providing the right regulatory framework he said. "It has been said of some of our European partners that they prefer regulation to competition. In our view, this risks stifling innovation. I believe in competition wherever possible and regulation only where necessary, as the opening of the telecoms market demonstrated."

There would be times where no regulation at all was the most practical solution. The consumer should be "empowered" by the technology itself.

Mr Mandelson promised early legislation to clear up legal problems over encryption and digital signatures.

He also announced that the trade and industry department would publish a report on the implications of the convergence of telecoms, broadcasting and the other IT industries.

Mr Mandelson predicted that the growth of electronic commerce and the introduction of the European single currency would lead to a big change in competition. "The euro and the new digital economy will cast a bright, unforgiving light on the uncompetitive," he said.

But he added that British business was well-placed to take advantage of both. "I want Britain to be the test bed for digital products and services in Europe, so that UK consumers have access to these first and British business can lead the world."

INFRASTRUCTURE FUNDING ACCOUNTING MOVES WOULD MAKE IT HARDER FOR DEALS NOT TO COUNT AS GOVERNMENT DEBT

## Public-private funding scheme faces rule change

By Nicholas Timmins and Jim Kelly

The government yesterday accepted in principle accounting rules which private finance initiative experts say will make it much harder for a range of deals under the scheme not to count as government debt.

The PFI is a scheme to attract private finance to public projects.

Geoffrey Robinson, the

paymaster general (a Treasury minister), said the government would not apply the new rules to past deals or to those put out to bid and final offers by January 1. This decision means in practice that the change to the government's balance sheet treatment of the deals will not affect most projects likely to be commissioned in the three-year period of the government's current spending plans.

But the precise application of the ruling would have to be worked out on a case-by-

case basis that could still see projects counting as being off the government's balance sheet, he said. "There is plenty of life in the PFI yet," Robinson added.

The ruling issued today by the regulator for private sector accounting, the Accounting Standards Board, is a clear setback for the PFI. The board believes the rules are a radical departure from the existing ones written by the Treasury.

For projects to count as being on the supplier's bal-

ance sheet rather than the purchaser's - in this case the government - a range of risks, including that the operator will not be paid if the facility is not fully used, must be transferred. That has not applied to date to many hospital and prison projects, for example, but is much less likely to affect road and IT projects.

Eddy Richards, a PFI accounting specialist with Ernst & Young said: "Under these rules it is almost impossible to imagine how

you would construct a PFI project so that a hospital moved off the public sector balance sheet."

"I think it will make a huge difference in all sorts of PFI contracts - especially hospitals and prisons. You could construct projects which moved them off the balance sheet, but in reality operators would not sign them."

Specialists predicted that in effect such facilities would have to be built "on spec", effectively following

US practice in which private jails are built facing the same kind of commercial risk as private hotels.

But both Adrian Montague, head of the Treasury's PFI taskforce, and Tim Pearson, a member of the specialist committee on PFI accounting at the Confederation of British Industry, the employers' lobby, argued the new rules would still require detailed interpretation in their application.

Lex, Page 19

## NEWS DIGEST

## BRUNEI INVESTMENT AGENCY

## KPMG said nothing of role in probe, court told

Prince Jefri, the disaffected younger brother of the Sultan of Brunei, paid KPMG, the Big Five professional services firm, £4.6m (£7.5m) to act for him in a court case which gave it access to his personal affairs, the High Court in London was told yesterday. But when KPMG was later called on to act for the Brunei Investment Agency as it investigates the financial affairs of the troubled Sultanate it refused to divulge its new role to Prince Jefri, Mr Gordon Pollock told the court. Prince Jefri is seeking an injunction that would in effect stop KPMG continuing to act for the Brunei Investment Agency - the organisation that looks after the family's overseas interests and was once headed by Prince Jefri. The case is being keenly watched by accountants and lawyers as it explores the increasing difficulties of conflicts of interest as the professional services sector consolidates and becomes more international. Mr Pollock said Prince Jefri had asked KPMG whether it had been appointed. "The answer was that we are not going to tell you anything," said Mr Pollock. "It was a polite and reasonable letter and they gave him the brush off."

Mr Ali Malek, who will put KPMG's case that it not acted improperly, said that the BIA has accepted that Prince Jefri's personal financial details will remain confidential. The case continues. Jim Kelly, London

## COMPANY LAW

## Law urged for directors' duties

Company directors' duties could be set out in legislation for the first time if the government accepts proposals published yesterday by the English and Scottish law commissions. The government's law reform bodies call for a statutory list of duties owed by directors to their companies. The move follows widespread concern that the law lacks transparency and directors' duties are not widely understood. If directors do not comply with their duties they can be sued, prosecuted or disqualified from acting as directors. The number of directors disqualified each year has risen steadily since the introduction of legislation in 1986. Last year the total was 1,200. The list proposed by the commissions would include the main directors' duties - such as loyalty, obedience and independence - as well as a statement of the minimum standard of care, skill and diligence they owe to their companies. Robert Rice, London

## PUBLIC SECTOR PAY

## Union chief predicts conflict

The next 12 months will see a confrontation between the government and public sector workers over pay restraint, according to John Edmonds, Trades Union Congress president. "It really does look as if we are heading towards big trouble and it is going to be very disruptive for everybody," he says in an article in New Statesman magazine today. "We are not looking for a fight but the members feel they are being pushed into a corner." Gordon Brown, the chancellor of the exchequer, is determined to hold down the level of pay settlements in the public sector although wage increases are running twice as high as the level of private sector deals. "Industrial action does not arise from one year's grievance," says Mr Edmonds, general secretary of the GMB general union. "It arises from a rising sense of grievance and frustration, a feeling that we can't do anything else about this except industrial action. There is a Greek tragedy element to all this." His union was involved in the infamous 1978-1979 "Winter of Discontent" which involved a public sector pay offensive against the last Labour government.

But the prospect of a public difference of view at next week's TUC conference lessened last night when the Treasury announced that Mr Brown has cancelled his scheduled speech to the unions because he will be visiting Japan. Robert Taylor, London

## STATE HEALTH SERVICE

## Doctors call for 10% wage rise

Ministers' hopes of restraining public sector pay rises were challenged by the doctors' trade union yesterday, which tabled a claim for "not less than 10 per cent" and argued that the independent pay review body was under no obligation to take account of the government's 2.5 per cent inflation target. The British Medical Association insisted the government does not have the power to impose tighter guidelines on the review body without the consent of employees' representatives. After the comprehensive spending review in July, ministers announced changes to the terms of reference to all the bodies, which recommend annual settlements for 1.3m public sector workers. They must now take account of the government's inflation target, departmental spending limits and the need to achieve the government targets for output and efficiency.

Dr Ian Bogle, chairman of the BMA council, argued the bodies are not duty bound to follow his guidance. He branded as "blackmail" the government's contention that increasing spending on health staff pay diverts money from patient care. Simon Buckley, London

## COMPANY NOTICES

## M.L.M. Holdings Limited

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410 Ann Street, Brisbane, Queensland 4000

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of M.L.M. Holdings Limited will be held at The Sheraton Brisbane Hotel, 224 Trenchard Street, Brisbane, Queensland on Thursday 15 October 1998 at 10.00 am.

## ORDINARY BUSINESS

1. Receipts and consideration of Directors' report and financial statements for the financial year ended 30 June 1998

2. Election of directors in accordance with the articles.

## SPECIAL BUSINESS

3. Approval of Special dividend payment of 10% on ordinary shares.

4. Increase in maximum aggregate directors' remuneration payable in any year.

By order of the Board  
D.M. Morris  
Secretary and General Counsel  
Brisbane, 11 September 1998

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24 HRS GLOBAL OFFSHORE TRADING

## Royal Opera House threatened with closure

By Antony Thornicroft in London

Sir Colin Southgate, chairman of the Royal Opera House, Covent Garden, yesterday threatened to close the venue in January unless he won agreement on new working practices.

He aims to reach a deal on staffing levels by October 28. The opera house is due to open in December 1999 after a £214m (£353m) refurbishment.

If agreement is reached the opera house intends to operate a cost cutting year until the re-opening, with no opera performances. The Royal Ballet will only perform on a Far East tour and at Sadler's Wells for a short season in July.

Sir Colin intends to save money by holding fewer performances - just 120 by the Royal Ballet in the first year and 100 by the Royal Opera, a cut of a third.

His negotiating position is strengthened by the full backing of Chris Smith, the chief minister for culture, and Gerry Robinson, the chairman of the Arts Council.

Alan Howarth, a junior culture minister, attended part of the meeting of the Covent Garden board on Tuesday that confirmed Sir Colin's strategy.

The Arts Council gives Covent Garden an annual

subsidy of approaching £15m a year.

Sir Colin has asked for nearer £20m to operate the new opera house effectively. He will receive a much lower sum. But as Covent Garden is hardly performing at all next year - and will be running a reduced programme after that - a higher subsidy is no longer essential.

The 420-seat studio theatre in the new Royal Opera House is one casualty of the

new strategy and will not operate as planned. In return for government support Covent Garden will cut its

seat prices, except at the highest level, by around a quarter on reopening. It will also offer reduced prices on Friday and Saturday matinees.

Sir Colin said yesterday that Covent Garden's deficit would reach £25m by March 2000 without the proposed

changes. By selling off retail sites in the new development it was hoped to reduce this to nearer £10m.

After one year in the new Royal Opera House he hoped to break even, thanks mainly to rental income from the retail outlets on the site.

The opera chorus will probably be stood down during 1999. The new deal depends on the co-operation of trade unions.

BRITISH ASSOCIATION SCIENTISTS' ANNUAL CONFERENCE HEARS HYDROGEN-EMITTING VENTS MAY HOLD KEY

## Life may have begun in an ocean floor Jacuzzi

By Thomas Barlow in Cardiff

Life on earth may have begun in a natural Jacuzzi that bubbled hydrogen gas up out of the ocean floor, the British Association was told yesterday.

Several hydrogen-emitting ocean vents, called black smokers, have been discovered over the past 20 years. But now one has been discovered that gushes a hundred times as much hydrogen as any other.

The sheer quantity of hydrogen combined with the high temperatures - more than 100°C around the vent, 350°C inside - may be enough to trigger the reactions necessary to create life.

The vent, in the mid-Atlantic ridge, was found two years ago by Chris German, of the Southampton Oceanographic Centre. Now French researchers, led by Jean-Luc Charlou of Ifremer in Brest, have made a submarine expedition to mea-

sure the amount of hydrogen the site produces.

Joe Cann, professor of Earth Sciences at the University of Leeds, told the BA annual conference yesterday that the process could be continuing today. "Hydrogen has been a hot suspect for the origin of life and now we have a modern place where life could originate and perhaps is originating now," he said.

But if new life is continuously being created it would

be very difficult to identify. It would almost certainly be consumed immediately by the myriad of other organisms that now populate the vent.

The discovery of a vent so rich in hydrogen has rekindled hope among scientists that they might be able to simulate in the laboratory the reactions that led to the origin of life.

The discovery also provides clues in the search for life on other planets. Also

speaking at the British Association meeting was David Des Marais, an astrobiologist with NASA, the US space agency. "Rather than going to find life, the key now is to find environments that could support life," he said.

That means looking for planets with water. But it also means looking for planets that are capable of producing enough carbon dioxide and hydrogen in the atmosphere to trigger the formation of organic molecules.

The high carbon dioxide concentration in the earth's atmosphere was a legacy of our volcanoes. The hydrogen that bubbles up from black smokers emerges through rock produced by plate tectonics. This observation suggests that the origin of life on earth may be an incidental result of continental drift, implying this might be a good thing to search for on the surface of other planets where life may also have begun.



THE ARTS

CINEMA

The harrowing art of a sentimentalist

Can a filmmaker serve two masters? Can he be true to both art and commerce? Steven Spielberg's acclaimed *Saving Private Ryan* is an extraordinary movie that drags us through the blood sacrifices of a D-Day landing; hauls us with Captain Tom Hanks and seven men of mission across war-battered northern France; and expires after mighty action doings in a French village strewn with bodies and heroism.

So why do I feel as if I have been sold a mutt in the guise of a mastiff? The great Spielberg debate threatens to rage on even after *Schindler's List* and this. That he is the most gifted and versatile filmmaker in the world scarcely anyone doubts. Who else could boast a portfolio containing *Jaws*, *Close Encounters of the Third Kind*, *ET* and *Jurassic Park* as well as four second world war movies each outpunching the last? And yet, and yet...

*Saving Private Ryan*'s self-confessed attempt to find a "human story" inside the inhumanity of war worries me from the start. Surely the inhumanity of war is the human story: the cruelty at once enormous and reductive, the waste of individual life in an expense of ideology or fanaticism.

But Spielberg and screenwriter Robert Rodat want to redeem the horror by delineating a struggle within a struggle. Their story is the Hanks platoon's attempt to find the lone surviving brother of three soldiers killed near-simultaneously in action. A mother's love and needs must transcend, however briefly, the imperatives of a nation.

The film begins harrowingly. The first half hour is a you-are-there blitzkrieg set on Omaha Beach: thudding bullets, severed limbs, spilling guts; moans, cries and tears. It is superbly shot by *Schindler*'s cameraman Janusz Kaminski. The speed and rhythm, the very texture of the filmstock, seem to change with each wincing second and Spielberg cuts down the sound once or twice, reducing it to an eerie white noise, to focus on leader Hanks's moments of inner agony.

This is great movie-making, dipping our heads in war's mess and meaninglessness. Yet it seems to have nothing to do with what follows. The remaining two hours hover dismayingly between subgenres and standpoints, as if *Saving Private Ryan* is uncertain whether to be an endangered-patrol action movie or a futility-of-war art movie.

The characters occasionally ask the very question on the audience's mind. Why risk their

**SAVING PRIVATE RYAN**  
Steven Spielberg

**COUSIN BETTE**  
Des McAnuff

**LA VIE DE JESUS**  
Bruno Dumont

**BABYMOOTHER**  
Julian Henriques

lives, let alone bypass broader geo-patriotic duty, to rescue the arbitrary, heraldic figure of an only surviving son? (Surely some of them are only sons too, with or without help from war-bereavement?)

No convincing answer comes and we suspect we know the real one. For Spielberg and Universal Pictures it is better six-handkerchief material to show Tom Hanks battling to save Matt Damon - yes, it is, he, though cast before *Good Will Hunting* made him a star - than to show one mass of people, the Allies, battling to defeat another, the Axis, with nothing for popcorn-eaters to identify with but abstractions like freedom, peace and democracy.

Those abstractions, though, and the ability to think with them, the ability to perceive that they do bear on human lives and emotions, are what distinguish people from animals. Spielberg is making a film for those who have yet to make that conceptual leap: to put it tersely, for simpletons and sentimentalists.

At the same time a film concerned with the way a vision of

individualised humanity can transcend the crudity of causes and collectivised creeds takes, itself, the collectivising short cut of making a demon of the main German character: a soldier who kills sadistically soon after being spared execution, thereby allowing us all to shrug once again and say "Nazis are Nazis."

Spielberg, though, saves the most vitriolic cliché character for the American side, in the cowardly observer-youthster who finally "grows up". This secondary hero, an interpreter played by Jeremy Davies, gets the film's worst moment of banality. Witnessing the escalating quarrel over whether to execute the German prisoner after a bloody skirmish, he says aloud as if to the heavens, "What is happening?" It is a moment of pure rhetoric, the kind of italicising that went out or should have with Cecil B. DeMille.

The sadness is that so much misdirection exists in a film with so much incidental greatness. It is like being in a fine landscape littered with tourist signposts, many pointing the wrong way.

When Spielberg does something by gut and instinct he gets it right. The death pains of the Omaha Beach soldiers; the poignant wordless scene of Mrs Ryan receiving news of her sons' death; the sequence of an agonised bullet victim forced to lie still in a street to avoid further sniper fire. These moments have a dramatic exactness and an imaginative intensity. But when Spielberg feels the call of the Universal shareholders, or perhaps the record-keepers of the all-time box office Top Ten (still dominated by him), he gives us the obvious. And his obvious can be every bit as crude and reach-me-down as anybody else's.

Nigel Andrews

Bette Davis once revealed that her name was inspired by her mother's reading of Balzac's novel *Cousin Bette*, writes Martin Hoyle. I wish she had kept that knowledge to herself; for now the spectre of Davis at her most bale-



Uncertain whether to be an endangered-patrol action or a futility-of-war art movie: Tom Hanks, Matt Damon and Edward Burns in 'Saving Private Ryan'

ful hovers intrusively over the accomplished stage director Des McAnuff's first feature film, and tantalisingly underlines its inadequacies. Despite sumptuous underpinning from costuming, stunts and crinolines, *Cousin Bette* falls heavily on its well-upholstered posterior.

Davis would have excelled as the disgraced poor relation who ruthlessly engineers the destruction of the feckless aristocratic family that patronises her. But Jessica Lange merely indulges in Acting with a quivering capital A, all knowing, tight-lipped smiles, weaving and bobbing her head in repressed eloquence. Balzac's characters have their reasons; these cinematic shadows have none - no depth, no personality, no motivation.

There are initial hints of black comedy. "Your beauty benefited all of us," murmurs Bette, comforting the angelic Adeline (Gerardine Chaplin) on her deathbed. "You tried to drown me," her cousin dreamily replies. But the

script swerves between styles and the direction leaves every actor to fend for himself.

Hence Hugh Laurie doing his eccentric upper-class act; Bob Hoskins in curly wig and tartan trousers (it is the 1840s); and Kelly Macdonald from *Trainspotting*, an embarrassment in mood, both stalling and ominous.

Freddy is an epileptic teenager in small-town France. He lives with his mother, hangs around with his unemployed mates, has sex with the lovely Marie, is prompted to mockery of "wogs" by the presence of Arab immigrants. Sexual jealousy erupts in violence. Some have detected the theme of redemption in the film. I saw none in a bleak, stately depiction of sacrifice to the long littleness of dehumanised modern life.

The casting of unpolished non-professionals is balanced by the director's almost ritualistic emotional economy. *La vie de Jesus* is infinitely more stylised than *Cousin Bette*, for all its swearing and graphic sex (body doubles

were used). Symbolism is obvious but effective. Even in conversation the characters' eyes stray helplessly to the ever-present television. Freddy tries to teach his caged furch to sing with the help of taped birdsong. Not an easy film, but a compelling one.

As social realism it misses out on one factor. So does *Baby-mother*, set in the reggae world of riving Harlesden. Strange, since blighted rural youth and the breathless hedonism of inner-city funk have drugs in common. To make films in the late 90s about the bored, purposeless young or the obsessively clubbing young without mentioning drugs is like studying the world's contemporary sexual habits without mentioning AIDS. This reservation apart, Julian Henriques' jolly fable of three girls making it as a group has vitality, enthusiasm and engaging performances. The Arts Council contributed funding, the Harlesden reggae scene being more your establishment culture in cool Britannia than, say, the D'Oyly Carte.

parison. In fact it is rigorously formalised: not merely austere, spare and elliptical (Bresson is the obvious comparison) but made up of innumerable three-fold sequences of establishing scenic shot, dialogue and epilogue-like scenic shot, repetitive in rhythm, cumulative in mood, both stalling and ominous.

The casting of unpolished non-professionals is balanced by the director's almost ritualistic emotional economy. *La vie de Jesus* is infinitely more stylised than *Cousin Bette*, for all its swearing and graphic sex (body doubles

were used). Symbolism is obvious but effective. Even in conversation the characters' eyes stray helplessly to the ever-present television. Freddy tries to teach his caged furch to sing with the help of taped birdsong. Not an easy film, but a compelling one.

A writer's report from the front

THEATRE

ALASTAIR MACAULAY

*Via Dolorosa*  
Royal Court Downstairs,  
Duke of Yorks, London WC2

David Hare is a playwright, but his latest performance piece, *Via Dolorosa*, is not a play. He is not an actor, but he is its sole performer. The performance is therefore a paradox. Perhaps we are expected to find it more real, more sincere, than theatre usually is. The opposite proves true. The problem with David Hare, as directed by Stephen Daldry, is that he looks and sounds more artificial than many actors would if delivering the same lines.

Too bad: *Via Dolorosa* is the result of a Royal Court commission (supported by the British Council) to visit Israel and Palestine for the first time and to write in response. The strange thing, however, is that it sounds as if it had been commissioned by the canny editor of some magazine. Or by BBC Radio 4, as a special, 95-minute edition of *From Our Own Correspondent*.

*Via Dolorosa* is not a play; it is good journalism, a little too charming at times, a little too regular with the shrewd jokes, but absolutely interesting at every turn, ruminative, intelligent and humane. Daldry has staged it as if it

often admirably relaxed - appears over-choreographed in each movement; there are several gestures too many per sentence, most of them thrown out from stiff elbows, and few of them spontaneous in manner. To the ears - though he delivers his long monologue from memory - he sounds as if he were reading a script and had not learnt how to

**'Via Dolorosa' is not a play; it is good journalism - a little too charming at times, but absolutely interesting at every turn**

was a Theatrical Event: as if the last thing we needed to attend to was the contemplative outpourings of Hare's mind, and as if we needed to be jollied through this poetic lecture with the aid of external factors. Thus, to the eyes, Hare - though he has learnt how to stand rooted to the spot, feet unshifting, for minutes on end, and though his hands are

side-lighting, does Hare become the masterful performer that *Via Dolorosa* needs throughout; only then do his own mind and voice become - as they should have been all along - all-encompassing.

*Via Dolorosa* has just been published, in tandem with Hare's 1996 lecture "When Shall We Live?". It will be good to read it, away from the artful and arty atmosphere created at the Royal Court. But Hare is at his least comprehensible when he tells you what his plays mean: though I saw *Amey's View* three times and with increasing pleasure, it makes no sense to me to hear from its author that it "is about how we no longer expect society to validate our beliefs". Hare is better at telling us about the world than about himself; and he is best when he creates - as only in the brief finale of *Via Dolorosa* - a world on stage.

Play text is published by Faber & Faber, £5.99.



David Hare: only in the last five minutes does he become the masterful performer 'Via Dolorosa' needs. Alastair Muir

INTERNATIONAL

Arts Guide

AMSTERDAM

**DANCE**  
Het Muziektheater  
Tel: 31-20-551 8911  
Dutch National Ballet  
Carlson-Humphrey-Tharp.  
Programme of works by the three choreographers. Includes Carolyn Carlson's *Slow*, heavy and blue and Twyla Tharp's in the Upper Room; Sep 10, 11, 13, 14, 15

**OPERA**  
Netherlands Opera, Het Muziektheater  
Tel: 31-20-551 8911  
Götterdämmerung; by Wagner. New staging by Pierre Audi, conducted by Harmut Henrichsen. Cast includes Heinz Krusa, Jeannine Altshoff and Henk Smit; Sep 12, 16

**BASLE**  
EXHIBITION  
Kunstmuseum  
Tel: 41-61-271 0828  
www.kunstmuseumbasel.ch  
A House for Cubism: the Roux. La Roche Colombe. Display of works collected by the Swiss

banker and given to the museum in the 1950s and 1960s. Includes works by Picasso, Braque, Léger, Gris, Le Corbusier and Ozenfant; to Oct 11

BEIJING

**OPERA**  
The Forbidden City  
www.turandot-on-site.com  
Turandot; by Puccini. Conducted by Zubin Mehta in a staging by Zheng Yimou. With the Maggio Musicale Fiorentino; Sep 10, 11, 12, 13

COLOGNE

**CONCERT**  
Philharmonie  
Los Angeles Philharmonic; conducted by Esa-Pekka Salonen in works by Sibelius, Salonen and Stravinsky; Sep 10

EDINBURGH

**OPERA**  
Edinburgh Festival Theatre  
Tel: 44-131-529 6000  
The Magic Flute; by Mozart. Scottish Opera production by Martin Duncan, conducted by Richard Farnes; Sep 16

FORT WORTH

**EXHIBITION**  
Kimbell Art Museum  
Tel: 1-817-3328457  
www.kimbellart.org  
Modernism - The Art of Design 1880-1940: works from the Northwest collection. Ranges from the British Arts and Crafts movement and Art Nouveau to

the Bauhaus and Art Deco; to Sep 13

FRANKFURT

**CONCERTS**  
Alte Oper  
Tel: 49-69-134 0400  
● Los Angeles Philharmonic; conducted by Esa-Pekka Salonen in works by Salonen and Bruckner; Sep 12  
● Radio Symphony Orchestra Frankfurt; conducted by Leonard Statkin in works by Enescu, Barber and Schumann. With soprano Linda Hohenfeld; Sep 10, 11

**OPERA**  
Oper Frankfurt  
Tel: 49-69-21237 999  
www.frankfurt-business.de/opera  
● La Périchole; by Offenbach. Conducted by Catherine Rüchwardt in a staging by Peter Eschberg, with designs by Peter Patst; Sep 12  
● La Traviata; by Verdi, in a staging by Axel Corti; Sep 11, 13

LONDON

**CONCERTS**  
BBC Proms, Royal Albert Hall  
Tel: 44-171-589 8212  
● BBC National Orchestra of Wales; conducted by Mark Elder in works by Stravinsky, Szymanowski, Debussy and Holst. With the BBC National Chorus of Wales and soprano Valdene Anderson; Sep 10  
● Chamber Orchestra of Europe; conducted by Nikolaus Harnoncourt in Beethoven's *Missa Solemnis*. With the Arnold

Schoenberg Choir; Sep 11  
● The Last Night of the Proms: Andrew Davis conducts the BBC Symphony Orchestra, Chorus and Singers in a programme including the European premiere of Hugh Wood's *Variations for Orchestra*, works by Gershwin, Thomas Adès and Parry. With baritone Thomas Hampson and piano soloist Jean-Yves Thibaudet; Sep 12

EXHIBITION

British Museum  
Tel: 44-177-636 1555  
Persian and Indian Manuscripts and Paintings: the Royal Asiatic Society celebrates its 175th anniversary with an exhibition of objects rarely seen by the public. The highlight is the Book of Kings made for Muhammad Juk, one of the great Persian manuscripts of the 15th century; to Sep 13

LOS ANGELES

**OPERA**  
L. A. Opera, Dorothy Chandler Pavilion  
Tel: 1-213-972 8001  
www.laopera.org  
● Carmen; by Bizet. Washington Opera production by Ann-Margret Pettersson, designed by Lennart Mörk. The conductor is Bertrand de Billy and the title role is sung by Jennifer Lamore; Sep 11, 13, 16  
● Werther; by Massenet. Conducted by Emmanuel Joel in a co-production with Théâtre du Capitole Toulouse staged by Nicolas Joël and designed by Hubert Monloup. The title role is

sung by Ramón Vargas; Sep 12, 15

LUCERNE

**CONCERTS**  
International Festival of Music  
Tel: 41-41-226 4400  
www.LucerneMusic.ch  
● Chicago Symphony Orchestra; Daniel Barenboim conducts works by Strauss, Berg and Tchaikovsky; Sep 11  
● Chicago Symphony Orchestra; Daniel Barenboim conducts works by Schoenberg, Wagner and Beethoven; Sep 12  
● Vienna Philharmonic Orchestra; conducted by Lorin Maazel in works by Mozart and Bruckner; Sep 14

MADRID

**EXHIBITION**  
Fundació la Caixa  
Tel: 34-1-435 4833  
Lucio Fontana (1899-1968): Retrospective of the Italian pioneer of conceptual and multimedia art; to Sep 13

MUNICH

**CONCERTS**  
Philharmonie Gasteig  
Tel: 49-89-5481 8181  
● Chicago Symphony Orchestra; conducted by Daniel Barenboim in works by Wagner and Mahler; Sep 14  
● Munich Philharmonic Orchestra; conducted by Rafael Frühbeck de Burgos in a programme including works by Manuel de Falla, Rimski-Korsakov and Ravel;

Sep 10, 11

NEW YORK

**EXHIBITIONS**  
Metropolitan Museum of Art  
Tel: 1-212-879 5500  
www.metmuseum.org  
● Letters in Gold: Ottoman Calligraphy from the Sakip Sabanci Collection, Istanbul. 70 objects ranging from the 15th to the 20th century. Includes manuscripts, panels and scrolls; from Sep 11 to Dec 13  
● The Nature of Islamic Ornament, Part II: Vegetal Patterns. Second in a four-part series on Islamic ornament from the 9th to the 18th century. Includes rare brocades and carpets; from Sep 10 to Jan 10

**Whitney Museum of American Art**  
Tel: 1-212-3272801  
Mark Rothko: major retrospective of the American abstract artist, including loans from Europe and Japan. The 100 works on display encompass all phases of Rothko's career, from the late 1920s to 1970; from Sep 10 to Nov 29

**OPERA**  
New York City Opera, New York State Theater  
Tel: 1-212-870 5570  
www.nycopera.com  
● Partenope; by Handel. Directed by Francisco Negrin and conducted by George Manahan. Lisa Saffer sings the title role; Sep 11, 16  
● Tosca; by Puccini. Production by Mark Lamos in association

with Glimmerglass Opera. George Manahan conducts and the cast includes Isabella Kabatu, Antonio Nagare and Mark Delavan; Sep 10, 13, 15

VIENNA

**CONCERTS**  
Musikverein  
Tel: 43-1-5058 6810  
● Chicago Symphony Orchestra; conducted by Daniel Barenboim in works by Schoenberg and Mahler; Sep 15  
● Chicago Symphony Orchestra; conducted by Daniel Barenboim in works by Wagner, Berg and Tchaikovsky; Sep 16

TV AND RADIO

● **WORLD SERVICE**  
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHz (463m)

● **EUROPEAN CABLE AND SATELLITE BUSINESS TV**

● **CNN International**  
Monday to Friday, GMT: 06.30: *Moneyline* with Lou Dobbs 13.30: *Business Asia* 19.30: *World Business Today* 22.00: *World Business Today Update*  
● **Business/Market Reports:** 05.07; 06.07; 07.07; 08.20; 09.20; 10.20; 11.20; 11.32; 12.20; 13.20; 14.20.

At 08.20s Tanya Beckett of FITV reports live from LIFFE as the London market opens.



## COMMENT &amp; ANALYSIS

LIONEL BARBER  
EUROPEAN VIEWPOINT

## Farewell, Brussels

The FT's departing bureau chief in Brussels looks back at what the EU has achieved and forward to what it still needs to do

An Irish diplomat recalls sitting in a restaurant in Phoenix, Arizona. A friendly waitress asked him what he did for a living. He replied that he worked for the European Community. Puzzled silence. "Oh, you mean like the Jewish community?"

I first heard that story six years ago, just before leaving Washington for a new job in Brussels. In those days, it was easy to make jokes at the expense of the anonymous EC, then enfeebled by currency crises and the sea-saw drama to ratify the Maastricht treaty, and the wars of Yugoslav succession.

Today, the European Community has a grander name: the European Union. Ordinary citizens still regard the EU and its institutions as aloof, remote and elitist. Ignorance and prejudice abound. Yet "Brussels" and "Europe" impinge on the public consciousness to a degree unimaginable in the dog-days of 1992-3.

Forget, for a moment, the imminent launch of economic and monetary union. Even without it, the EU has acquired critical mass. Fifteen members today, as many as 12 countries queuing to join tomorrow. This is a club which people want to join (welcome back, Malta).

A culture of co-operation has become embedded among the nation states of western Europe which goes beyond ministers jettisoning and out of Brussels. Food safety, mad cows, financial services, asylum and immigration, trade, and, yes, taxation. The EU's writ runs ever wider.

Europe is no longer foreign policy in the traditional sense. It has become an extension of domestic policy which can

make or break governments. John Major fell largely because of the Conservative party's civil war over Europe's single currency. Romano Prodi exploited Italy's desire to be at the heart of Europe, brilliantly engineering his country's entry into Emu last spring.

Explaining why Europe matters is a test for political leaders who are loath to admit how much power has flowed from national parliaments to collective decision-making in Brussels. Too many are still tempted to play on fears of mad-cap EU plans to harmonise. Remember rumours about the one-size-fits-all Euro-coin?

Despite these myths, the EU has acquired momentum — especially with the project many predicted would never happen. Two and a half years ago, I had my own doubts about the timetable for monetary union. These were widely shared not just in this newspaper but among the central bankers charged with making it a success.

Emu offers many lessons about European integration. The most striking are the importance of covenants entered into at an EU level and the determination of France and Germany to respect such treaty commitments. Less obvious is the EU's capacity to improvise in crisis.

In August 1993, the European exchange rate mechanism — supposedly the vehicle of guaranteeing currency stability in the run-up to Emu — buckled under a wave of speculation. But central bankers and finance ministers agreed to create a new ERM with wider margins of fluctuation. The move saw off the speculators and saved Emu.

One further point. Most countries involved in Emu are driven by a sense of strategy. Thus, the German policy elite, far from being reluctant converts to surrendering the D-Mark, grasped that Emu was the implicit price for German unification and an EU

commitment to enlarge to Germany's hinterland in central and eastern Europe. Many later realised that Emu, through its competitive impact, could also act as a tool for industrial regeneration. From the standpoint of France, monetary union has always been a device for containing German power. The creation of a European Central Bank offers the French (and the rest of Europe) a once-in-a-generation chance to break the Bundesbank's de facto role in setting Europe-wide monetary and interest rate policy. French politicians on the left and the right have stuck doggedly to this long-term objective, confounding British predictions that the economics of Emu were wrong-headed and dangerous.

Emu is indeed a high-risk enterprise, especially now that 11 countries will join the first wave on January 1, 1999. But a smaller de facto D-Mark bloc, though safer, would have been much more divisive. The same forces of improvisation will come to the fore as members of the euro-zone seek to make Emu an economic as well as a monetary union.

As for the British, they misread European intentions over Emu — not for the first time. Britain's relationship with Europe since 1945 has been a catalogue of missed opportunities. British ministers often behave like educated soccer hooligans with their European colleagues. John Major's "beef war" was comically futile, and infinitely depressing. The new Labour government has changed tone, but it took nine months for Tony Blair to discover that he had no European policy. Now the talk centres on institutional reform: a European version of the constitutional changes that Mr Blair plans for Britain so that power comes closer to the people. But British policy remains essentially defensive.

Mr Blair talks a good game about Britain playing a leading role in Europe, but Britain has chosen to stay outside Emu, and there is no realistic prospect of signing up before 2002-2003. Labour is still suspicious about

joining the Schengen treaty guaranteeing freedom of movement, but can Britain really afford to remain aloof from expanding co-operation on immigration, asylum and organised crime?

One area where change is clear is European defence. Mr Blair recognises that he can curry favour in Paris by talking up the role of the EU's defence arm, the Western European Union, without triggering fears in Washington that Britain is conspiring to undermine Nato or the US military presence in Europe.

More important, both British and European businesses are clamouring for a more integrated European defence industry to bridge the widening technology gap with the Americans. This time, the French are exposed as the most sovereignty-conscious nation by balking at Anglo-German pressure to put their military industrial complex in private hands.

European integration has always been driven as much by commercial logic as political inspiration. The genius of Jacques Delors was that he combined both with his 1992 single market project. But European integration also reflects the power of historical forces.

The period 1992-96 marked the first stage of western Europe's effort to shape a new economic and political order after the collapse of communism. Emu is one building block; the next is the slow but steady enlargement of the union eastwards.

Both developments will require an overhaul of EU institutions which will involve further pooling of sovereignty. The nation state will not be abolished because five centuries of tradition cannot be expunged in five decades. But it will be transformed.

The trick for Europe's leaders is to catch up and shape these forces without moving so far ahead of the people that all pretence at consent is abandoned. It was my privilege to watch this historic process at first hand; to be present at the creation. I now look forward to studying the next steps at one remove back in London.

Hemel.barber@ft.com

## LETTERS TO THE EDITOR

## Fallacy that IMF lacks funds to respond to prospective crises

From Mr Jim Saxton.

Sir, For more than seven months, Clinton administration officials have made misleading statements to the American people regarding the administration's contention that the International Monetary Fund is virtually destitute. Further, these officials have downplayed the importance of moral hazard. Both of these inaccurate claims were repeated in your September 4 editorial, "Funding for the IMF".

In responding to your assertion that the IMF "would not have the wherewithal to help" should additional crises occur, it is noteworthy that the US General Accounting Office (GAO), as well as IMF managing director, Michel Camdessus, himself, have acknowledged that the IMF in fact does have sufficient resources to respond to prospective crises.

Moreover, leading central bankers, such as Alan Greenspan and Hans Tietmeyer, concede that moral hazard certainly is a serious problem.

As for resource availability, the GAO recently reviewed IMF finances at my request and presented its findings at a recent Joint Economic Committee hearing. The GAO agreed with my conclusions that the IMF has access to \$43bn in quota resources, \$32bn in gold, and a \$23bn credit line. That totals \$98bn after the IMF's share of the money for the Russian bailout is subtracted. That total does not fully include \$12.6bn in scheduled repayments this year to the IMF.

While many unique factors complicate the Russian banking situation, the familiar moral hazard ingredients of risky lending, lax regula-

tory standards, low levels of capital and government support remain much in evidence. Research has convincingly demonstrated that moral hazard is important and that international financial crises have increased in frequency and severity after IMF bailout practices became commonplace.

The bottom line is that the IMF is not destitute, and moral hazard remains an important problem to be solved. Should global financial crises worsen before November, it will be surely caused by the result of the IMF's mistaken policies and not its supposedly inadequate funding.

Jim Saxton, chairman, Joint Economic Committee, US Congress, Washington, DC 20510-6602, US

## BNFL committed to reducing discharges

From Mr John R. S.

Gunnies. Sir, In response to Helen Wallace's letter ("Small print cannot let BNFL off the hook", September 7), I would like to reassure Dr Wallace that BNFL is fully committed to reducing its impact on the environment and has already reduced principal radioactive substances in liquid discharges to about 1 per cent of levels 20 years ago. We have an obligation to

continue the clean-up programmes which are dealing with the historic legacy of the early nuclear programme at Sellafield. Waste arising from these programmes has to be dealt with, meaning that some discharges would continue even if the ongoing operations at Sellafield were stopped.

BNFL recognises that the OSPAR agreement presents us with demanding challenges. However, we will be

working very hard in the years ahead to reduce our discharges even further, to the point that, in 2020, they will be at levels where the additional concentrations in the marine environment above historic levels are close to zero.

John R. S. Gunnies, chairman, BNFL, Risley, Warrington, Cheshire WA3 6AS, UK

## A different perspective if positions rearranged

From Professor David Flower.

Sir, I note from an item in the Lex column entitled "Fujitsu" (September 5-6) the following (perhaps slightly insensitive?) sentence regarding the soon-to-be-redundant workers at the Fujitsu plant in the NE of England: "It may not have

been a job for life, but for some it was a good one for seven years, which is a lot better than nothing."

Put another way, they are lucky to have had a job at all: stiff upper lip, everyone! I suspect that the writer of those words might view the situation rather differently if about to be made redundant

himself, owing to events completely out of his/her control; but I guess that the only way to be sure that this is true would be to perform the experiment.

David Flower, physics department, Durham University, Durham DH1 1LE, UK

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## Same game, different rules

With Kenneth Starr about to file his report, Jurek Martin considers the parallels and differences between Bill Clinton's and Richard Nixon's travails

Watergate, which ended the presidency of Richard Nixon in August 1974, was a story that unfolded slowly but developed the momentum of a runaway train. For all the many differences between now and then — especially between the seriousness and nature of the accusations against two presidents — Bill Clinton is now confronting many of the same political and legal phenomena that characterised the endgame for Nixon.

It was Paul McCloskey, a Republican congressman from Indiana and fringe rival of Nixon for the 1972 party presidential nomination, who first tried — and predictably failed — to get the House of Representatives to debate impeaching Nixon over Watergate in early June 1973. Similarly, some right-wing Republicans, such as Bob Barr of Georgia, have been using the I-word for three years.

It was a full 14 months before Nixon finally resigned under the weight of the evidence of "high crimes and misdemeanours" revealed in the secret White House tape recordings detailing presidential involvement. That "smoking gun" was more than enough to persuade Republicans on the House Judiciary committee to desert their president and to vote to indict him on three articles of impeachment for seeking to subvert and pervert the American political process.

For Mr Clinton, the Starr report is the equivalent of the Watergate tapes. Initially, the task of Kenneth Starr, the special counsel, was to investigate the tangled skein of the Whitewater financial affair in Arkansas. But that has been long forgotten. All that ought to matter now is whether he finds credible — and therefore possibly impeachable — evidence that the president committed perjury and/or obstructed justice in connection with his now admitted sexual relationship with Monica Lewinsky, the former White House intern.

The Starr report will presumably have another element: graphic and salacious descriptions of the Clinton-



Clinton: his best hope lies with the tolerant American electorate

Lewinsky affair. These could turn the tide of public opinion against a president who is still, at the moment, far more highly regarded outside Washington than inside the capital. By contrast, Nixon's ratings in the summer of 1974 were in the pits, his credibility shattered to the point of no return.

Sensing or pre-empting a shift in the national wind — or merely for their own re-election reasons — Democrats have begun running away from Mr Clinton just

mid-term elections (and who are now seeking to increase their majorities this November).

More even than that, Mr Clinton helped America reach (in spite of recent stock market turmoils) the sort of broad, sunlit economic uplands that have been preserved, even if only in modified form, the progressive social and environmental policies that Republicans were intent on dismantling wholesale.

Now, some privately, and

## Clinton could yet find an excitable Congress mishandling whatever evidence is presented to it

occasionally openly, wonder if a President Al Gore might not be a better guardian of Democratic values than a discredited Bill Clinton — though the real possibility that a special prosecutor might be appointed to investigate the vice-president's political fundraising is a complicating factor.

If Mr Clinton is forced to resign, it will be because of decisions taken by politicians with one eye on voters whom they face in two months' time. In forming their opinions, both voters and politicians will be influenced by the media, whose role in Mr Clinton's troubles has been as important as it was with Nixon. Until undermined by incontrovertible

evidence, Nixon's defenders always argued that there was a liberal (ie left-wing) conspiracy — conducted through national newspapers and television networks, to "get" a president whose relations with the press had always been difficult. Earlier this year, Hillary Clinton suggested the existence of a comparable rightwing media cabal against her husband.

American journalism is different now, more opinionated and with more outlets, including the Internet and all-news television channels, which are frenetically driven to be first rather than necessarily right. The feeding frenzy that Watergate saw only at its culmination has been in full flow ever since the name of Monica Lewinsky first surfaced. Many powerful media personalities, it seems, have a stake in an outcome that requires the humiliation, if not the departure, of the president. Even the New York Times, traditionally the bastion of liberal values, has been withering in its contempt of Clinton.

There are dissenting voices, like Anthony Lewis, the veteran New York Times columnist who laments that presidents can no longer have, without fear of subpoena, private conversations with advisers, let alone private lives. But the tidal wave is in the other direction.

All is not lost for Mr Clinton, that most resilient of politicians. Always lucky in his enemies — the burlapric Speaker Newt Gingrich, the prurient Mr Starr, the scheming and taping Linda Tripp — he could yet find an excitable Congress mishandling whatever evidence is presented to it. It is not as if Capitol Hill is currently littered with the magisterial representatives who, with deliberation and solemnity, weighed the evidence of the Watergate story.

But his best hope lies with the jury that has yet to be heard from but which has elected him twice, knowing his flaws — the tolerant American public. He will need to address them, free of legalistic constraints, before they cast an opinion that matters on the first Tuesday in November.

## Pfizer forum Healthcare Risks for Health Benefits

BY WILLIAM W. LOWRANCE, Ph.D.

A pioneer in "risk" studies argues that thinking about health care in terms of risks and benefits is crucial for sound healthcare decisions.

Whether to have a mole removed. Whether to bother to have a child's aching ears checked. Whether to take the flu vaccine. Whether, in coping with prostate enlargement, to undergo surgery, take a long course of medication, or wait. Whether, at healthy menopause, to enter into hormone replacement therapy. Whether to start taking cortisone, or to stop taking cortisone. We all make decisions like these, for ourselves and for others, all the time. Healthcare providers, regulators, and insurers make similar decisions on behalf of both individuals and society.

In making choices about health interventions, attending to some fundamentals such as those outlined here can make for decisions that are "better bets" — decisions that offer better prospects, constitute more worthwhile expenditures of effort and resources, and more reliably promise relief and hope.

Compare the intervention risk against the target-illness risk, weigh the benefits against the risks, and seek net risk reduction. Surely the disease is worse than the proposed cure? Obviously, if an intervention doesn't promise overall benefit on balance, it should not be undertaken. But nor should an action be avoided simply because it has some downside. We promote diphtheria-tetanus-pertussis vaccination, even though it has some adverse-effect risks for a few children, because it virtually eliminates the risks of those illnesses for the great majority of the children vaccinated and besides, by reducing the contagion it even helps protect those who are unvaccinated.

All health interventions have residual risks. Even wearing contact lenses, or having a dental cavity filled, carries some small risk. Always there will be risks for a few people having special characteristics, such as unsuspected allergies, and there

will be risks from error, accident, or abuse. But the only reason to take a healthcare action is to try to come out better-off, net, in the long run — reducing the target-illness risk, and suffering minimal negative side-effects.

Base healthcare decisions on "informed handicapping." Each of us begins life with unique physical and social lots.

Viewing health care in benefit/risk terms can help assess the quality of care and the relative payoff from the myriad options in the prospectus of healthcare investments available to individuals and society.

and these lots — genetic makeup, environment, lifestyle options, hazard exposures, defences, compensations — are continuously modified as we thread our way through the incidents in the lottery of life. Some we can influence, some we can't. As we try to intervene in the stream of chance health-events, we must take the odds and stakes into account as best we can.

Estimating the risks and the life and resource stakes involves both elaborate scientific risk assessment and personal information gathering. For some risks, much can be known; for others, little. The most promising choices must be sought, despite uncertainties.

Not everyone can be expected to benefit equally, and benefits may accrue to others besides the person who directly receives the care. The challenge for society is to learn from collective experience, refine the technical possibilities, and, within societal constraints, tailor interventions to individuals' needs and wants.

Take account of values as well as facts. A decision over whether a risk is accept-

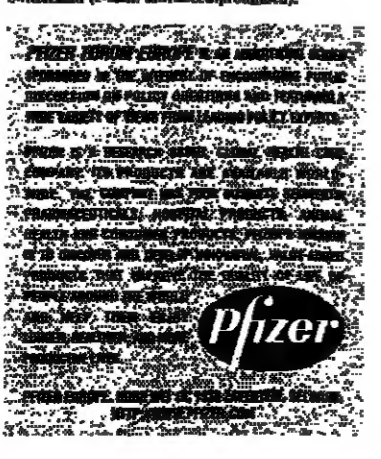
able, is a value judgement. Although values, preferences, fears, and willingness can be appraised in systematic ways, they are not generated by facts alone. Even facing identical risk facts, people may choose differently. Healthcare decisions must respect attitudes and values.

Regard healthcare interventions as investments in effort and expense, not just as sunk costs. Healthcare costs could hypothetically, after all, be reduced to zero. So — just as with fire protection, hurricane prediction, pension fund, and all other investments — the question should be: What return can be expected, and with what degree of assurance?

Appraise health outcomes and healthcare quality in terms of benefit and risk. All healthcare systems, public and private, everywhere, are striving now to learn by evaluating actual experience in health promotion, access to care, illness prevention, diagnosis, therapy, rehabilitation, and long-term support. Specifically what "works," for whom, under what circumstances, how well, at what cost?

Viewing healthcare in benefit/risk terms can help assess the quality of care — and, even, to define what is meant by "quality" — and the relative payoff from the myriad options in the prospectus of healthcare investments available to individuals and society.

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## FINANCIAL TIMES

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Thursday September 10 1998

### The indignity of it all

The most powerful man in the world is in sore political straits. Bill Clinton has allowed a rather sordid little private affair to balloon into a big question of judgment and probity, which has already brought indignity to the office of US president.

His failure to express genuine contrition over his sexual relationship with Monica Lewinsky has damaged his own standing, the presidency itself, and his Democratic party. He is being abandoned by his own supporters and ridiculed by his political opponents. His public approval ratings, so long resistant to suggestions of scandal surrounding him, have started to plummet.

Even when he said "sorry" about the affair last week, it was ambiguous whether he was sorry for his behaviour, and for having lied and encouraged others to lie, or whether he was merely sorry that it had all become such an issue. Not only has he been visibly reluctant to say the word, but he has now allowed himself to be dragged and bullied by his own supporters into saying it. His words are wassels ones, his actions based forever on political expediency. He still appears to think that the affair is a right-wing conspiracy, and he cannot see what he did wrong.

It is the president's behaviour which has caused the Lewinsky affair to explode. His first mistake was to seek to deny it. His second was to fail to be forthright and direct in his apologies

to his wife and the nation, when an admission became unavoidable.

A few weeks ago there was no enthusiasm in Congress, and the wider political establishment, for the dread process of impeachment. It is certainly not something to be considered lightly. But today, even if not a likelihood, it has become a political possibility, thanks to the president's mishandling of his explanation.

There is serious debate whether impeachment can be used only for criminal behaviour, or also for what might be termed outrageous conduct. And there is general agreement that the latter would be grounds for such action. Whether it comes to pass will depend on the tone and contents of the report to be filed by Kenneth Starr, the independent counsel, on Friday.

Richard Nixon, of course, was never actually impeached. He resigned first. That still does not look like a likely course for Mr Clinton, who has everything to lose by quitting, including his legal immunity. But whatever he does will leave the office of the president further weakened, the legislature stronger - and his reputation in tatters. One cannot expect much leadership from the rest of his tenure.

That is why his own Democrats are turning on him, and insisting that he make it clear he is genuinely sorry - for his actions, not just the tight corner he is in.

### Euro slowdown?

A bleak picture of growth prospects in the European Union might be suggested by the latest data out yesterday. German output grew by only 0.1 per cent from the first to the second quarter. Meanwhile, both Italy and France downgraded their growth forecasts. Is this a sign that the emerging markets crisis is affecting Europe's recovery?

Not entirely: there is no consistent picture of a slowdown across the three major euro-zone economies. Although all the talk is of the effects of the Asian and Russian crises on Europe, the more humdrum reality is that the emerging markets are still only having a limited impact on output prospects. Domestic factors are far more important.

In Germany, the dramatic slowdown in the second quarter was almost entirely a correction after an abnormally strong first quarter, when a number of special factors boosted growth. These distortions make it difficult to say what is really happening to output. Certainly, domestic demand growth is a worry, but trade is holding up well, with the current account moving into surplus despite the emerging market turmoil.

France's growth downgrade was very small, shaving just 0.1 percentage points from next year's output growth forecast, which is now 2.7 per cent. Despite weakening trade, growth

this year should still reach a healthy 3 per cent.

Italy is quite a different story. Romano Prodi, the Prime Minister, blamed the downgrade in the government's 1998 growth forecast from 2.5 per cent to 2 per cent on the emerging markets crisis. But this is far from the whole story. Italian growth is being stunted by the effects of the sharp tightening of fiscal policy to meet the Maastricht criterion, and by Italy's serious structural problems, particularly in the labour market, which the government has failed to address.

What all three countries do have in common, unfortunately, is stubbornly high unemployment. This is unlikely to be affected much by any cyclical upturn. In Italy, the unemployment rate is set to hover at around 12 per cent, and while the unemployment rate in Germany has been falling, this appears to be due to a shrinking of the labour force rather than a rise in jobs. This is despite the fact that Europe's labour markets are much more flexible now than they were a decade ago.

Europe's economic recovery has not stalled, but is perhaps less robust than had been previously hoped. The European growth engine, which together with the US is being relied upon to keep the world out of recession, cannot be taken for granted quite yet.

### Basic needs

The United Nations Human Development Report knocks on the head the notion that the world needs to consume less. The problem rather is that more than one-quarter of the world's population cannot meet its most basic consumption needs. Ensuring adequate basic provision for all would cost a surprisingly modest amount. It is still a mighty task.

The world will consume twice as much this year as in 1975, and 16 times as much as in 1900. But over 1bn people have been excluded from this consumption boom. Just 20 per cent of the world's population account for 86 per cent of global consumption. The average African household consumes less now than 25 years ago. Asia's financial crisis will have a profound effect on living standards in emerging markets.

Not only are there glaring inequalities in world consumption. Poor people disproportionately bear the costs of pollution and environmental degradation.

The fear that declining non-renewable resources, such as fossil fuels, will limit growth is discredited. New sources have been found and demand has slowed. The deterioration of renewables is of far greater concern. One-sixth of the world's land area has been spoiled by overgrazing and poor farming practices. Over-fishing is exhausting stocks of the basic source of protein for the people in poor countries. The

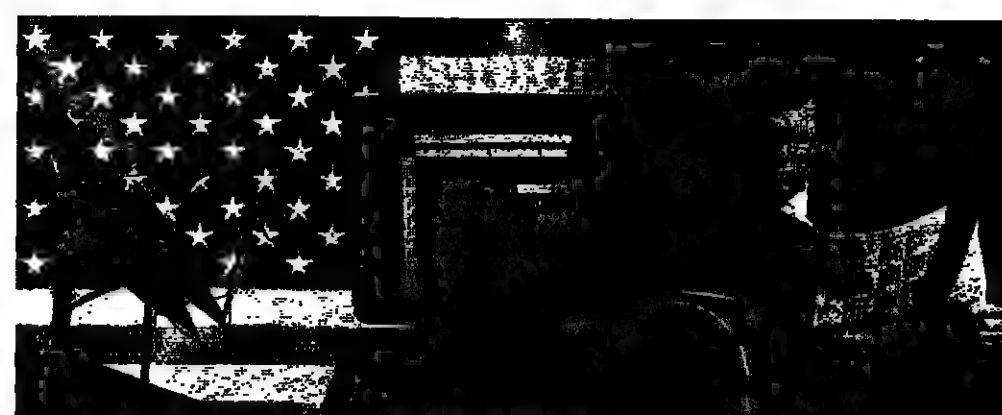
overwhelming majority of people who die due to air and water pollution are in poor countries. The UN calls for an end to "perverse subsidies" worth \$900bn per year, that encourage over-use of energy, fertilisers and road transport.

This dwarfs the sums needed to achieve the UN's goal of ensuring minimum consumption levels for all. The world's richest countries ought not to have great difficulty in finding the relatively small sums the report shows would provide basic social services in developing countries. An extra \$60bn would provide universal basic education in developing countries; an extra \$90bn would provide water and sanitation; \$130bn would provide basic health and nutrition for all. This compares to annual expenditure of \$80bn on cosmetics in the US, \$11bn on ice cream in Europe, and \$35bn on business entertainment in Japan.

The far more formidable task is to ensure functioning markets, sustainable processes, and the level of organisation and commitment from the governments of developing countries which is needed to make the reduction of poverty a reality. Corrupt and unstable governments can make soluble problems seem hopeless. Where governments are prepared to co-operate, there is a moral obligation on the part of rich countries to help.

## Waiting to connect you

Technology mergers have gone from nowhere to become the biggest thing in the M&A business. Roger Taylor and William Lewis explain why



US hi-technology: converging and merging



technology deal does not simply reflect the growth of the industry. Instead the shift marks changes both in the dynamics of the industry - and in the mindset of its leading executives.

More than a decade ago, M&As were regarded by many in the technology business as a side-show to the more important issue of product innovation. A good product, coupled with lots of marketing, produced breathtaking rates of organic growth: these mean that owner-managers did not need acquisitions grow fast to satisfy outside shareholders. Microsoft, the world's largest software producer and one of the two largest companies in the US, has grown almost entirely through organic growth.

The view that technology companies did not need to make acquisitions was linked to the belief among industry executives that M&As did not work well because of the industry's supposedly unique culture. Technology companies, so the argument ran, were driven by maverick individuals, often the founders, whose corporate culture was at odds with Wall Street conventions.

Moreover, mergers would not successfully bring together software writers and engineers who were schooled in different technologies. Trying to force together such marriages, it was said, would lead to the defection of

staff and clients and damage the business.

In recent years, however, this school of thought has been turned on its head with the emergence of so-called "serial acquirers", such as the New York-based Computer Associates and Silicon Valley-based Cisco Systems, which have achieved extraordinary growth through takeovers.

Cisco, which is now the leading supplier of equipment used for building computer networks, regards its formalised system for integrating acquisitions as an essential to its success. It has prospered by buying smaller businesses with a strong technology base but lacking the necessary sales and marketing infrastructure. Cisco's market value is today \$100bn, a position reached little more than 10 years after its founding.

The Cisco model has so far been the benchmark for M&As in the technology industry. But bankers are now licking their lips at the emergence of a new type of deal in the technology industry, driven by a different dynamic - convergence.

Technological developments have in the past resulted in a proliferation of new industries. Today, that process is going into reverse as new technologies produce overlapping functions and blur traditional

demarcations between sectors.

One of the best examples is the convergence of the internet and so-called "traditional" media such as newspapers and magazines. Today much of the traditional print media can be read on the internet (including this one: see [www.ft.com](http://www.ft.com)). New technologies such as television on the web, internet access through TVs and interactive television could one day make the internet and television indistinguishable services.

Likewise on the hardware level, computer networks, such as the internet, are converging with telephone networks and cable TV networks. Traditional telephone companies now realise the future lies in selling internet and data services alongside traditional voice services. Companies that sell equipment either for telephone or computer networks already regard the two areas as a single market.

Similarly, companies that sell computers and software to businesses are finding that their market is not just about selling products but also about helping them to run it better - providing "total solutions" as IBM, the world's largest computer company, puts it. Alec Ellison, managing director at Broadview, a technology M&A investment bank, says: "Companies are waking up to find that the market they

thought they were in is no longer their market."

It is this convergence that is driving many mergers. The biggest area for deal-making has been in the telephone and data networking equipment area. Leading telephone equipment companies such as Nortel and France's Alcatel, both traditional telecoms hardware companies, have been buying makers of computer networking equipment. Ericsson, the Swedish telecoms company, yesterday announced the acquisition of Advanced Computer Communications, an affiliate of Newbridge Networks of Canada, for \$285m - another move by a telecoms company to buy into internet technology. European telephone equipment companies such as Siemens and Alcatel have alliances with US data companies - relationships which could evolve into mergers.

The convergence of the internet with traditional media has also prompted deals between large, traditional media companies and internet pioneers. NBO, the US broadcast network, has taken a stake in the Snap internet site from C-Net. Disney recent took a 40 per cent stake in Infoseek, the internet search site. With Yahoo!, Excite and America Online, the largest internet media companies, all still independent there is speculation about the next deal in this area.

Matt L'Heureux, vice-president of investment banking at Goldman Sachs, identifies another potential area for large deals: computer hardware and software companies that want to expand their services business.

At the most basic level, services can amount to little more than providing IT support to clients. However, this can be extended to IT consultancy, systems integration, and outsourcing contracts to manage customers' IT systems. Compaq's acquisition of DEC, announced in January, was motivated by its desire for a larger services operation and Computer Associates' failed bid for Computer Sciences earlier this year was an attempt to achieve the same.

George Bontour, who moved with Mr Quattrone to CSFB, says that the convergence of different industries is still a relatively new process and there are likely to be more surprising combinations than those seen to date. One prospective marriage that raised eyebrows involved AOL, which was forced to rebuff overtures from AT&T, the largest telecoms group in the US. This and other examples of lateral moves by industry leaders are being seen as increasingly likely.

Take, for example, Microsoft's move into internet content, which brings it more into the media business. Given Microsoft's \$200bn capitalisation, could it one day bid for, say, Disney? Or take the overlap between telephone companies and traditional computer companies. As data networking capabilities are built into the telephone system, telephone companies find themselves involved in running data management services. AT&T is currently seeking to outsource this type of work to companies such as IBM, which is meanwhile trying to sell its computer network operation to a telephone operator such as AT&T. Could these two merge?

Such combinations may sound implausible. But as technology M&As gather pace, they may yet become the norm.

## OBSERVER

### Slovakia's screen test

The election bandwagon of Vladimir Meciar, three-time Slovak premier, is only just beginning to roll, but it has already flattened the general director of the main commercial television station.

Pavol Rusko, the head of TV Markiza, a prominent supporter of the opposition, is claiming that the government plans to accuse him of tax fraud and of plotting to kill his business associates. He says he's planning to clear out of the country until after this month's elections are safely over.

The government, which is not known for its tolerance of opposition - and which regards Markiza as an opposition mouthpiece - denies that it harbours any ill will towards Rusko. But strange things have been going on at the station, which is part-owned by Central European Media Enterprises of the US.

Rusko was thrown out of his office last month by security guards working for businessman Marian Kofner, who rolled up to announce that he was the new owner of the 51 per cent share of the TV station that Rusko thought he owned jointly with his partner.

A court, working in uncharacteristic haste and secrecy, had awarded control of

the company to Kofner for a paltry \$7,000 after Rusko failed to pay a disputed debt.

So far, the ownership row has not tamed TV Markiza's coverage, but a new election law should take care of that even if the new owner doesn't.

Under threat of losing its licence, TV Markiza has dropped a new series of profiles of political leaders. This week it was halted before the broadcasting commission to face an accusation that it had violated a new ban on "political propaganda" in the media during the election campaign.

All very useful for Meciar so far, but the new law may just backfire on him - the commission has also shot down a programme on the heavily-biased state TV channel.

### Bauble economy

Those sober-suits at Morgan Stanley have identified a new leading indicator for the Japanese economy: female footwear. The hideous platform shoes being spotted by Tokyo fashion victims are a sure sign of a prolonged slump.

"Bubbles do not generally lead to a falling standard of dress, while recessions produce a rich crop of what in retrospect appears bizarre and unwearable," notes the investment bank.

As supporting evidence it points to Britain in the 1970s - an era of unwearable six-inch

platforms, nasty nylon shirts and kipper ties. Economic fundamentals and fashion sense crumbled in tandem, runs the argument.

But Observer seems to recall that British interest rates followed footwear - rising to a painfully high level before the economy and equity prices recovered - while Japanese interest rates have so far been moving in the opposite direction.

Fingers crossed for a paradigm shift towards sneakers.

### Final fling

Tomorrow sees the last official celebration in Chile of the 1973 military coup in which leftwing President Salvador Allende died. The September 11 anniversary has been a national holiday since 1981, even under the civilian government that replaced coup leader General Augusto Pinochet eight years ago.

The festivities have long offended those who suffered under the military regime which, says the current civilian government, had over 3,000 dissidents killed and thousands more tortured. But the Senate - of which Pinochet is a life member - has doggedly defended the holiday against all government moves to junk it.

Now Pinochet, still a powerful figure, has declared that the holiday should be replaced by a "day of national unity" on the first Monday in September, starting

next year. Senate leaders have executed a sharp about-turn to fall in behind the former dictator.

National unity, however, apparently has its limits. Asked for help in discovering the fate of the 1,000 or more who went missing under his rule, he said: "I have asked some friends of mine, and no one knows anything." Sounds like his interrogation technique might be slipping.

### Burning ambition

In this age of stratospheric transfer fees, thank goodness some football players can keep their feet firmly on the pitch. While fans of Spain's Real Betis wonder whether it was worth paying \$35m for Denilson to move from São Paulo, spare a thought for his fellow professionals in Romania.

The chances of local club Recolta Laza hanging on to their goalkeeper have just gone down the shower plug. Valentin Bargan has been lured to Laza's fourth-division rivals Steaua Buda after they doubled their transfer fee to \$11.55: his old team could only cough up \$5.78 to try to keep him.

But the money, Observer is happy to report, was a secondary consideration. Says Bargan: "The main reason for my departure was the truck of firewood given me by the new club." The club he quit offered a mere cartful to stay on.

## Financial Times

### 100 years ago

Asses Or Knaves? From Our Special Correspondent, Melbourne. I have referred in a previous letter to the fatal mistake that has been made by a large number of companies in sending out and erecting batteries before they know whether there is any ore to crush or not. There are only two ways in which to account for this folly - one is by writing down as asses the Directors responsible for it, and the other by writing them down as knaves; and I think in many cases the latter is the true explanation. A company is promoted with glowing statements that it is adjoining the Great Bunkum or some other well-known mine, and very often the ground has no other merit to recommend it.

### 50 years ago

Wall Street Prospect Last Monday's Labour Day holiday in the United States marked the traditional end of the summer holiday period for Americans. Businessmen have returned to their offices and factories to cope with the normal winter expansion in business activity. But the opening gambits of the New York stock market have not been shaping very brilliantly.



## THE LEX COLUMN

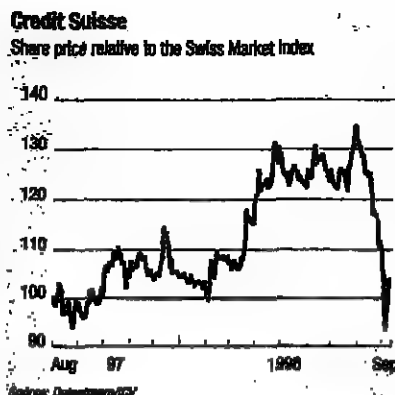
## Russian crushing

If ever the volatility of investment banking earnings needed demonstrating, the contrast between Credit Suisse's sparkling first-half results and recent Russian losses at its investment banking subsidiary does just that. It took only a few weeks in August for CSFB to wipe out a third of the \$750m it contributed to its parent's interim net income. Allowing for profits elsewhere, Russian losses may well amount to \$350m so far. This is hardly a threat to a group that squandered away more than \$1bn in extra provisions in 1997 and which has a tier one capital ratio above 11 per cent.

But the publication of a breakdown of CSFB's \$8m exposure to emerging markets is bound to raise the question of how much worse the losses might get. Only Russian provisions were detailed and these amounted to just over \$1bn - about half the exposure. While the list is to be welcomed, what it means in terms of new provisions or old ones used up is unclear. That Credit Suisse provides such an extensive cushion is reassuring in one way: the group can take the pain. But it is a timely reminder that provisions should not be disregarded. The provisions taken in one year can bail the bank out in another.

### NTT DoCoMo

Tokyo's market for initial public offerings has shifted from famine to feast. After almost no new issues in the past 12 months, the flotation of NTT's mobile telecommunications subsidiary, DoCoMo, could raise more than \$15bn - more than all last year's deals put together. The risk is that domestic and international investors could find the issue indigestible. Such fears are overdone. DoCoMo is likely to be a growth stock - unusual in recession-ridden Japan - with 67 per cent market share. Moreover, the group's focus on profitability - unusual for a Japanese company - means the average revenue from its 20m customers is high. And its network reaches 86 per cent of a population of 124m people in a country that still has a staggeringly large gross domestic product. True, DoCoMo's debts are a concern, and the company's new variant of digital technology something of a gamble. But as long as NTT does not become greedy and overprice the issue, most international institutions underweight in



Japan will readily pick up the stock. The same is doubly true for domestic institutions unconcerned by currency considerations.

That will not necessarily be the case for retail investors. Ten years ago many investors heavily in NTT itself, whose shares have fallen more than 50 per cent, even underperforming the Nikkei 225 average. No matter how attractive DoCoMo looks, they might feel once burnt, twice shy.

### UK stocks

So British Steel, a company with 40,000 employees and annual sales of nearly \$7bn (\$11.5bn), is kicked out of the UK's FTSE 100 blue-chip index. Among the new crop is Colt Telecom, a business with 900 employees, \$22m of sales last year and no profits. Thrown in the three other new "Footsie" telecom/technology companies and the index's weighting in services tops 30 per cent. That compares with only 14 per cent for the German market. Meanwhile, industrials now account for a meagre 54 per cent of the Footsie. Wind back a decade. Then capital goods together with conglomerates accounted for more than banks, currently the largest sector, do now. The marginalisation of manufacturing and the pre-eminence of the service industry, of course, reflects the way the UK economy has changed. But the Footsie exaggerates that shift because stocks are valued on future potential as well as current earning power.

The promotion of high-tech stocks also gives at least a partial lie to the theory that UK investors do not appreciate growth stories. The slight nudge is that stocks like Colt have made it into the Footsie thanks in no small part to the enthusiasm of US investors. As their presence grows in the UK, so too do their ideas on valuation and wealth creation. Colt and its ilk will add a dash of excitement to the Footsie, but could also make it a more expensive place to invest. Some technology stocks trade on over 40 times prospective earnings.

Investors who buy the Footsie now are buying into what UK plc will look like, not where it is now. For the latter, the mid-capitalisation FTSE 250 index - with its much bigger weighting in industrials - arguably provides a more realistic snapshot.

### BSkyB/Man Utd

Manchester United fans complaining about British Sky Broadcasting's takeover of their soccer club have lost the plot. It is the fans of other clubs who should be complaining. Rupert Murdoch's pay-television group is hardly going to pay \$223m (\$1bn) for United and then run it down. It is much more likely that BSkyB will pump in cash to hire the best players and develop the brand still further.

BSkyB was extremely coy about the deal's financial logic yesterday. That is hardly surprising. In part, this is because BSkyB has probably got a bargain - despite being forced to pay an extra 11 per cent in the final negotiating showdown. True, the deal will initially be a touch earnings-dilutive. But United is exceptionally well-positioned to benefit from the trend in European soccer to winner-takes-all economics. Pay-per-view TV, a potential European super league and a possible breakdown of the English Premier League's single negotiating front all mean the top clubs can expect a bigger slice of the broadcasting pie.

The other reason for being coy is that BSkyB presumably hopes to use its ownership of United to improve its bargaining position in winning future broadcasting rights - both in the UK and abroad. Whether that would be anti-competitive is a moot point. But given the current political hoo-ha, it would certainly be foolish to spell out its plans in public.

## BoJ cuts rates to prevent a 'deflationary spiral'

By Gillian Tett in Tokyo

The Bank of Japan is to loosen monetary policy for the first time in three years in order to prevent the world's second largest economy from sliding into a deflationary spiral.

The overnight call rate - the interest rate at which funds are lent in the money markets - will be brought down from around 0.5 per cent to 0.25 per cent and the money supply expanded.

The decision, announced yesterday, leaves Japanese rates at some of the lowest levels in recent history. Following the announcement, the yen weakened Y4 against the dollar and was trading at around Y137 on European markets compared with around Y130.45 earlier in Tokyo. The move prompted speculation that the US might soon cut rates as part of a broader policy of global easing. Last weekend Kichichi Miyazawa, Japan's finance minister, met Robert Rubin, US Treasury secretary, to discuss

Japan's economy and the recent global financial turmoil.

But Masaru Hayami, Bank of Japan governor, insisted: "There have been no discussions with overseas authorities on this decision. We took the decision based purely on the present condition of Japan."

Separately, the bank's policy board said the measure had been taken "to ensure that the economy does not worsen further and to prevent the economy from falling into a deflationary spiral".

The government is due to release figures for gross domestic product in the second quarter of this calendar year tomorrow. Officials have warned that these are likely to show a further sharp decline in activity.

A survey by the finance ministry published yesterday showed capital expenditure fell 10.8 per cent in the second quarter of the year, compared to the same period last year. The overnight call rate differs from the official discount rate in

that the former is set by the market but the latter is announced by the Bank of Japan.

The Bank of Japan can influence the call rate by the amount of money it provides to the money markets. It tries to "set" the overnight rate each day by deciding how much liquidity to pump into the markets. In the last three years, it has set this rate slightly below 0.5 per cent.

The decision to reduce the rate could pave the way for a cut in the official discount rate to 0.25 per cent. This has been at a record low of 0.5 per cent for almost three years.

Recently alarm about the health of Japan's financial sector has pushed this rate up. The bank has tried to offset this by providing the market with more funds. The overnight rate is the level usually used by the corporate sector in determining borrowing costs.

Central Bank sets pace, Page 8  
Fujitsu Bank falls, Page 13

## Yeltsin refuses to name his choice to be prime minister

By Christine Freeland and John Thornhill in Moscow

Russian president Boris Yeltsin yesterday refused to name his choice as prime minister despite meeting two of the top contenders - Victor Chernomyrdin, the acting prime minister, and Yevgeny Primakov, the foreign minister.

The struggle over who will be Russia's next prime minister has sparked a showdown between the Kremlin and the Duma, the lower house of the Russian parliament, which threatens to end in the dissolution of the parliament.

Gennady Zyuganov, leader of the Communist party, warned that forcing pre-term parliamentary elections would create a power vacuum in Moscow, which he said would be particularly dangerous given the turmoil in the Russian economy. "A half-dead Kremlin, an incapable government, and the absence of parliament would mean that there was no legitimate authority at the federal level," he said. "I know Russia's history well and I know what happens when there are times of troubles in the absence of state power."

### CSFB hit by crisis

Credit Suisse First Boston, the investment bank, plans to cut its exposure to emerging markets after heavy losses in Russia. It said yesterday it still had a net exposure of \$2.16bn, higher than many analysts had expected. Lukas Mühlemann, Credit Suisse's chief executive, said: "We have made substantial amounts of money in Russia in the past. What's happening now is we're giving some of it back." Shares in its parent, Credit Suisse Group, yesterday fell 13 per cent, by SF32 to SF212. See Lex CS results, Page 15

Mr Yeltsin's hesitation this week in selecting a candidate for the Duma's third and final ballot had sparked speculation that Mr Chernomyrdin was out of favour. But several leading Russian politicians yesterday predicted that the former prime minister, whose candidacy has already been rejected twice, would be the president's choice for the final ballot as well.

Proposing Mr Chernomyrdin a third time would infuriate the Duma. However, Yuri Luzhkov, the powerful mayor of Moscow, said that would not deter the president.

Alexander Shokhin, the parliamentary leader of the party headed by Mr Chernomyrdin, said Mr Yeltsin's hesitation did not mean his support for the former premier had wavered.

However, the Communists vowed that Mr Chernomyrdin would be rejected by the Duma, forcing the dissolution of parliament and Russia's most serious constitutional conflict since 1993, when the Kremlin brought in tanks to dissolve a rebellious parliament. In the past, the Communists have caved in to the Kremlin at the last minute. But the collapse of Russia's market economy seems to have emboldened them.

Reuters reported yesterday that a meeting of foreign and finance officials from the Group of Seven leading industrialised nations, to discuss the Russian crisis, would now take place on Monday, not Saturday as originally planned.

Moscow crisis, Page 2  
See Lex

## CONTENTS

### News

European News	2,3
American News	8
International News	5
Asia-Pacific News	4
World Trade News	6
UK News	8
Weather	12

### Features

Editorial	11
Letters	10
Management/Info Tech	22
Observer	11
Arts, Arts Guide	7
Analysis	10,11
Crossword Puzzle	28

### Companies & Finance

European Company News	15,16
Asia-Pacific Company News	14
American Company News	18
International Capital Markets	24

### Markets

Bonds	24
Bond futures and options	24
Short term interest rates	25
US interest rates	24
Currencies	25
Money markets	25
FTSE/A World Indices	23
Europe's	23
World stock markets reports	36
World stock market listings	33
London share service	30,31
FTSE Actuaries UK share indices	32
Recent issues, UK	32
Dividends announced, UK	20
Managed funds service	27-28
Commodities	26
FTSE Gold Mines Index	32

### Survey

Business Travel	Separate section
World Energy	Separate section

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German chancellor Helmut Kohl prepares for his last cabinet meeting before this month's general election. Rate of growth slows, Page 3

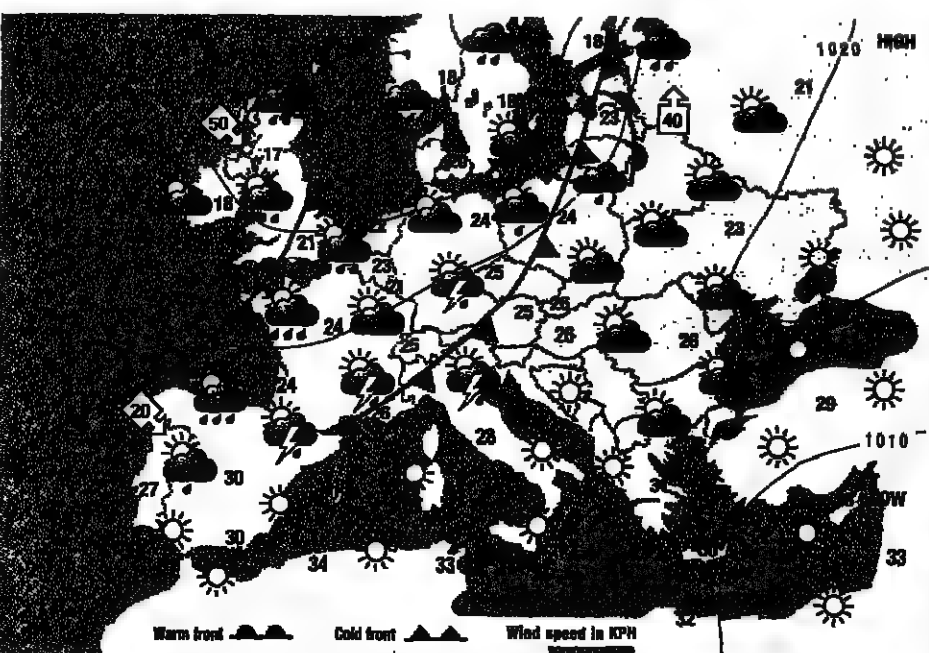
### FT WEATHER GUIDE

#### Europe today

Southern Europe will be hot and sunny but showers and local thunderstorms are possible in Greece and northern Spain. An active cold front stretching from southern France to the Baltic States will set off heavy showers and thunder downpours. The Low Countries, northern France, northern Germany and Denmark will be warm but blustery with sunny spells and heavy showers. Norway, Sweden and Finland will be dominated by low pressure with showers and more prolonged spells of heavy rain but western Russia will be mostly fine and settled.

#### Five-day forecast

Unsettled weather over north-western areas will push south-east over much of Europe by the weekend. This will trigger heavy thundery showers over the Alps and then over Italy and the Balkans. Western Russia through to Turkey will remain fine.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

#### TODAY'S TEMPERATURES

Moscow	Sun	29	Paris	Sun	27	Madrid	Sun	28	London	Sun	26	Amsterdam	Sun	25	Stockholm	Sun	24	Helsinki	Sun	23	Tampere	Sun	22	Oulu	Sun	21	Reykjavik	Sun	20	Oslo	Sun	19	Bern	Sun	18	Zurich	Sun	17	Geneva	Sun	16	Basel	Sun	15	Frankfurt	Sun	14	Munich	Sun	13	Düsseldorf	Sun	12	Cologne	Sun	11	Dortmund	Sun	10	Essen	Sun	9	Duisburg	Sun	8	Bochum	Sun	7	Münster	Sun	6	Bielefeld	Sun	5	Wuppertal	Sun	4	Siegen	Sun	3	Kassel	Sun	2	Karlsruhe	Sun	1	Stuttgart	Sun	0	Mannheim	Sun	-1	Heidelberg	Sun	-2	Regensburg	Sun	-3	Salzburg	Sun	-4	Innsbruck	Sun	-5	Graz	Sun	-6	Ljubljana	Sun	-7	Belgrade	Sun	-8	Sofia	Sun	-9	Bucharest	Sun	-10	Warsaw	Sun	-11	Prague	Sun	-12	Bratislava	Sun	-13	Vienna	Sun	-14	Budapest	Sun	-15	Belgrade	Sun	-16	Sofia	Sun	-17	Bucharest	Sun	-18	Warsaw	Sun	-19	Prague	Sun	-20	Bratislava	Sun	-21	Vienna	Sun	-22	Budapest	Sun	-23	Belgrade	Sun	-24	Sofia	Sun	-25	Bucharest	Sun	-26	Warsaw	Sun	-27	Prague	Sun	-28	Bratislava	Sun	-29	Vienna	Sun	-30	Budapest	Sun	-31	Belgrade	Sun	-32	Sofia	Sun	-33	Bucharest	Sun	-34	Warsaw	Sun	-35	Prague	Sun	-36	Bratislava	Sun	-37	Vienna	Sun	-38	Budapest	Sun	-39	Belgrade	Sun	-40	Sofia	Sun	-41	Bucharest	Sun	-42	Warsaw	Sun	-43	Prague	Sun	-44	Bratislava	Sun	-45	Vienna	Sun	-46	Budapest	Sun	-47	Belgrade	Sun	-48	Sofia	Sun	-49	Bucharest	Sun	-50	Warsaw	Sun	-51	Prague	Sun	-52	Bratislava	Sun	-53	Vienna	Sun	-54	Budapest	Sun	-55	Belgrade	Sun	-56	Sofia	Sun	-57	Bucharest	Sun	-58	Warsaw	Sun	-59	Prague	Sun	-60	Bratislava	Sun	-61	Vienna	Sun	-62	Budapest	Sun	-63	Belgrade	Sun	-64	Sofia	Sun	-65	Bucharest	Sun	-66	Warsaw	Sun	-67	Prague	Sun	-68	Bratislava	Sun	-69	Vienna	Sun	-70	Budapest	Sun	-71	Belgrade	Sun	-72	Sofia	Sun	-73	Bucharest	Sun	-74	Warsaw	Sun	-75	Prague	Sun	-76	Bratislava	Sun	-77	Vienna	Sun	-78	Budapest	Sun	-79	Belgrade	Sun	-80	Sofia	Sun	-81	Bucharest	Sun	-82	Warsaw	Sun	-83	Prague	Sun	-84	Bratislava	Sun	-85	Vienna	Sun	-86	Budapest	Sun	-87	Belgrade	Sun	-88	Sofia	Sun	-89	Bucharest	Sun	-90	Warsaw	Sun	-91	Prague	Sun	-92	Bratislava	Sun	-93	Vienna	Sun	-94	Budapest	Sun	-95	Belgrade	Sun	-96	Sofia	Sun	-97	Bucharest	Sun	-98	Warsaw	Sun	-99	Prague	Sun	-100	Bratislava	Sun	-101	Vienna	Sun	-102	Budapest	Sun	-103	Belgrade	Sun	-104	Sofia	Sun	-105	Bucharest	Sun	-106	Warsaw	Sun	-107	Prague	Sun	-108	Bratislava	Sun	-109	Vienna	Sun	-110	Budapest	Sun	-111	Belgrade	Sun	-112	Sofia	Sun	-113	Bucharest	Sun	-114	Warsaw	Sun	-115	Prague	Sun	-116	Bratislava	Sun	-117	Vienna	Sun	-118	Budapest	Sun	-119	Belgrade	Sun	-120	Sofia	Sun	-121	Bucharest	Sun	-122	Warsaw	Sun	-123	Prague	Sun	-124	Bratislava	Sun	-125	Vienna	Sun	-126	Budapest	Sun	-127	Belgrade	Sun	-128	Sofia	Sun	-129	Bucharest	Sun	-130	Warsaw	Sun	-131	Prague	Sun	-132	Bratislava	Sun	-133	Vienna	Sun	-134	Budapest	Sun	-135	Belgrade	Sun	-136	Sofia	Sun	-137	Bucharest	Sun	-138	Warsaw	Sun	-139	Prague	Sun	-140	Bratislava	Sun	-141	Vienna	Sun	-142	Budapest	Sun	-143	Belgrade	Sun	-144	Sofia	Sun	-145	Bucharest	Sun	-146	Warsaw	Sun	-147	Prague	Sun	-148	Bratislava	Sun	-149	Vienna	Sun	-150	Budapest	Sun	-151	Belgrade	Sun	-152	Sofia	Sun	-153	Bucharest	Sun	-154	Warsaw	Sun	-155	Prague	Sun	-156	Bratislava	Sun	-157	Vienna	Sun	-158	Budapest	Sun	-159	Belgrade	Sun	-160	Sofia	Sun	-161	Bucharest	Sun	-162	Warsaw	Sun	-163	Prague	Sun	-164	Bratislava	Sun	-165	Vienna	Sun	-166	Budapest	Sun	-167	Belgrade	Sun	-168	Sofia	Sun	-169	Bucharest	Sun	-170	Warsaw	Sun	-171	Prague	Sun	-172	Bratislava	Sun	-173	Vienna	Sun	-174	Budapest	Sun	-175	Belgrade	Sun	-176	Sofia	Sun	-177	Bucharest	Sun	-178	Warsaw	Sun	-179	Prague	Sun	-180	Bratislava	Sun	-181	Vienna	Sun	-182	Budapest	Sun	-183	Belgrade	Sun	-184	Sofia	Sun	-185	Bucharest	Sun	-186	Warsaw	Sun	-187	Prague	Sun	-188	Bratislava	Sun	-189	Vienna	Sun	-190	Budapest	Sun	-191	Belgrade	Sun	-192	Sofia	Sun	-193	Bucharest	Sun	-194	Warsaw	Sun	-195	Prague	Sun	-196	Bratislava	Sun	-197	Vienna	Sun	-198	Budapest	Sun	-199	Belgrade	Sun	-200	Sofia	Sun	-201	Bucharest	Sun	-202	Warsaw	Sun	-203	Prague	Sun	-204	Bratislava	Sun	-205	Vienna	Sun	-206	Budapest	Sun	-207	Belgrade	Sun	-208	Sofia	Sun	-209	Bucharest	Sun	-210	Warsaw	Sun	-211	Prague	Sun	-212	Bratislava	Sun	-213	Vienna	Sun	-214	Budapest	Sun	-215	Belgrade	Sun	-216	Sofia	Sun	-217	Bucharest	Sun	-218	Warsaw	Sun	-219	Prague	Sun	-220	Bratislava	Sun	-221	Vienna	Sun	-222	Budapest	Sun	-223	Belgrade	Sun	-224	Sofia	Sun	-225	Bucharest	Sun	-226	Warsaw	Sun	-227	Prague	Sun	-228	Bratislava	Sun	-229	Vienna	Sun	-230	Budapest	Sun	-231	Belgrade	Sun	-232	Sofia	Sun	-233	Bucharest	Sun	-234	Warsaw	Sun	-235	Prague	Sun	-236	Bratislava	Sun	-237	Vienna	Sun	-238	Budapest	Sun	-239	Belgrade	Sun	-240	Sofia	Sun	-241	Bucharest	Sun	-242	Warsaw	Sun	-243	Prague	Sun	-244	Bratislava	Sun	-245	Vienna	Sun	-246	Budapest	Sun	-247	Belgrade	Sun	-248	Sofia	Sun	-249	Bucharest	Sun	-250	Warsaw	Sun	-251	Prague	Sun	-252	Bratislava	Sun	-253	Vienna	Sun	-254	Budapest	Sun	-255	Belgrade	Sun	-256	Sofia	Sun	-257	Bucharest	Sun	-258	Warsaw	Sun	-259	Prague	Sun	-260	Bratislava	Sun	-261	Vienna	Sun	-262	Budapest	Sun	-263	Belgrade	Sun	-264	Sofia	Sun	-265	Bucharest	Sun	-266	Warsaw	Sun	-267	Prague	Sun	-268	Bratislava	Sun	-269	Vienna	Sun	-270	Budape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**INSIDE**

**Iridium postpones launch of global mobile phone service**

Iridium is postponing the launch of the world's first global hand-held mobile phone service due to technical difficulties. The US-based satellite operator, which was due to have launched its service on September 23, said it needed more time to test the \$50n system. Page 18

**Europe's banks plan rival benchmark**

Libor - the London Interbank Offered Rate - has for years been the undisputed benchmark for international transactions in most of the world's currencies. But leading European banks hope to take advantage of the UK's decision to opt out of the first wave of European monetary union to sponsor a rival benchmark rate, known as Euribor. Business and the Euro, Page 21

**Grolsch reveals flat interim profits**

Grolsch, the Dutch brewer of premium beers, revealed flat interim profits and said no improvement was likely for the full year. Domestic sales for the summer season were "considerably poorer" than last year. Page 16

**Thistle to return £185m to holders**

Thistle Hotels, in which Brierley Investments of New Zealand holds a 48 per cent stake, is to return £185m (\$305m) to shareholders, a month after plans to sell the UK's second largest hotels company fell through. Page 19

**Israel to lift dual-listing objections**

Israel's Securities Authority will lift objections to dual-listing of Israeli companies trading on the New York Stock Exchange and Nasdaq but so far blocked from trading in Tel Aviv. Page 24

**Pakistan cotton hit by hot August**

High night temperatures in August have hit Pakistan's cotton crop. The situation has highlighted the country's environmental conditions and their implications for its crops. Page 26

**Bogotá stocks down 51% this year**

Market turmoil and negative internal factors have depressed Colombian equities. Since Russia devalued the ruble, Bogotá's IBS index has fallen 50 per cent in dollar terms and is 51 per cent down this year, hit by high interest rates and fiscal deficit. Some traders believe the market has touched bottom. But thoughts of recovery may be premature. Page 36

**COMPANIES IN THIS ISSUE**

ABP	20	Iridium	18
AMP	14	Izuu Motors	18
Aor	14	Kingfisher	32
Advanced Computer	13	LTGS	19
Aerospaciale	7	Logica	19
Albus	7	LucasVerity	18,22
Albright & Wilson	26	Manchester Utd	6,12,20,22
BAA	16	Mitsubishi	14
BAe	7	Maytag	8
BellSouth	16	Mitsubishi	16
Bentley	16	NTT DoCoMo	12,13
Bosch	7	Norwich Union	19
CIR	16	PBL	14
CSFB	15	Pearson	16
Canada	26	Pouyet-Citroën	16
China	16	Philips	16
Citibank	14	Pirelli	7,16
Costa Vytile	19	PolyGram	18
Cornerstone Props	16	Porche	13
Credit Suisse	12,15	Portfolio Partners	19
Deesult	7	Prode	16
Deutsche Bank	15	Procter & Gamble	1,16
Deutsche Telecom	16	Proton	7
Digital Teleport	18	RFS Global Invest	18
Dresner Bank	15	Scottish Media	32
Dun	16	Scottish & Newcastle	32
Equity Inns	18	Seagram	16
Ericsson	13	Sella	15
Flit	16	Société Générale	15
France Telecom	13	Splice	16
Fujitsu	13	TPi	14
GTE	16	Telebras	16
Geca	7	Telefonica	18
General Motors	14	Tollate	16
Grolsch	16	Tristia	19
Guac	16	UBS	15
Helvetia	16	UPS	7
Hutchinson	15	VCI	32
IBM	16	Valmet Automotive	13
IDC	5	Whitbread	32
Inspire	16	William Wilson	16
Interbrew	16	Xerox	16

**CROSSWORD, Page 25**

**MARKET STATISTICS**

Annual reports club	30,31	Emerging Market bonds	24
Banknotes and coins	24	FTSE Americas share index	32
Bank prices and options	24	Foreign exchange	24
Commodities prices	24	Oil prices	24
Commodity movements, UK	24	London share index	30,31
EMU currency rates	24	Managed funds service	27-29
Equity prices	24	Money markets	24
Equity prices	24	New list bond issues	24
Equity prices	24	Recent issues, UK	32
FTSE 100 index	24	Short-term UK rates	24
FTSE 100 index	24	Stock markets at a glance	32
FTSE 100 index	24	US interest rates	24
FTSE 100 index	24	World stock markets	24

**Russian losses hit Credit Suisse**

By Gary Harris in London and William Hall in Zurich

Credit Suisse First Boston, the investment bank, plans to cut its exposure to emerging markets after heavy losses in Russia where, it announced yesterday, it still has a net exposure of \$2.16bn - higher than many analysts had expected. Shares in its parent, Credit Suisse Group, yesterday fell 13 per cent, by \$37.82 to \$372.12 (\$139.40) continuing their sharp slide since the Russian crisis broke. CS gave more details about the composition of its Russian exposure than any other big bank, using an exchange rate of Rb25 to the dollar, one of the most conservative valuations yet. But unlike some other banks, it refused to estimate actual losses or the impact on earnings. Lukas Mühlemann, Credit Suisse's chief executive, said: "We have made substantial amounts of money in Russia in the past. What's happening now is we're giving some of it back." Although CS wanted to improve its reputation for financial transparency, Mr Mühlemann said it was concerned that full disclosure of the size of its provisions would weaken its bargaining position with Russian counterparties. Stephen Hester, CSFB's chief financial officer, said losses

**Bank plans to cut its exposure to emerging markets**

had increased by less than \$50m since the bank made its first statement on Russia on August 26. The previous statement was interpreted by analysts as pointing to a loss of up to \$500m. Robin Monro-Davies, chief executive of the Fitch IBCA credit rating agency, said yesterday his firm was reckoning on banks losing up to 80 per cent of their Russian exposure. CSFB's reduction of emerging markets activity will mainly take the form of reducing capital employed. But job losses are likely in Russia, where CSFB employs more than 300 people. Mr Hester

said: "I would be surprised if we needed that number of people in Russia, but we haven't made a decision yet." The revised Russian figure removed some of the gloss from the group's first-half results, which showed a 36 per cent advance in net profits to \$72.4bn (\$1.7bn). CSFB increased net profits before minority interests by 21 per cent to \$75.4m. With revenues rising by 32 per cent to \$4.4bn, profits were squeezed by a 38 per cent growth in personnel expenses. Of its \$2.16bn net Russian exposure, loans totalling \$1.325bn accounted for the big-

gest chunk. This includes \$933m in quasi-sovereign loans, of which \$60m was extended to Russian multinationals with access to dollars, and \$332m in sub-sovereign loans. CSFB had net trading positions of \$123m in Russian government securities and \$24m in corporate bonds. It is valuing its GKO (treasury bills) and OFZA (medium-term fixed-rate government bonds) at only 5 to 6 per cent of pre-restructuring face values. Mr Hester said much of the holdings had been bought at considerably under face value.

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**Fuji Bank falls on fears over derivatives**

By Gillian Tett in Tokyo

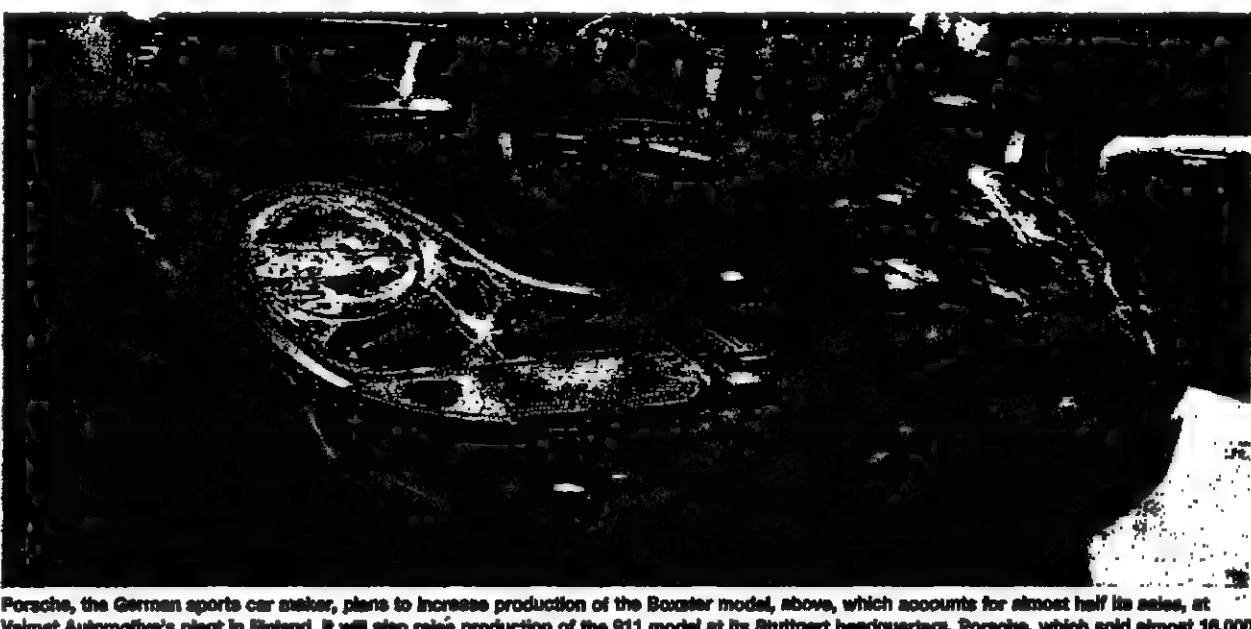
Shares in Fuji Bank tumbled 15 per cent yesterday to a record low of ¥329 amid market concern about the bank's derivatives business. The fall, which helped pull the Nikkei 225 Average down 1.06 per cent to close at 14,775.54, left the share price sharply lower than its peak of ¥1,100 and well below the levels of most other large Japanese commercial banks. Fuji denied it faced a ¥2,000bn-¥3,000bn loss on derivatives operations. Terunobu Maeda, managing director, said: "Most of our derivatives transactions are interest rate swaps so the risks are not high. We have lost about ¥15.5bn (\$117m) at most." Fuji is the latest bank to become the focus of concern over a financial sector weighed down by bad loans. Long-Term Credit Bank also saw its share price tumble on fears that it was insolvent. The Financial Supervisory Agency, Japan's banking watchdog, said the volume of derivatives contracts held by Japan's 19 largest banks at the end of fiscal 1997 was ¥2,305,440bn, on a gross notional basis which measures the potential value of the contracts. The credit risk is smaller, because the contracts are netted off against each other, at around ¥24,000bn. The FSA figures show Fuji Bank's derivative contracts were ¥415,000bn on a notional basis after rising ¥185,000bn in 1997. This was the largest volume held by any Japanese bank, followed by Bank of Tokyo-Mitsubishi, with ¥394,000bn. Fuji Bank argued that it was "misleading to count the risk simply from the volume [of derivatives trade] the bank has". It said it had more than ¥800bn of unrealised profits on market-related trading at the end of August. But there are also doubts over the bank's "Fuji" keiretsu, or business family, which includes Yasuda Trust Bank, and is affiliated to Hitachi, the electronics group which warned that it would post its first net loss for 50 years. The group is unlikely to be able to copy the example of the Mizuho keiretsu, which earlier this month agreed to a large capital injection to help Sakura Bank.

**Listing of Sanlam**

**to create \$2.8bn company**

By Victor Mallet in Cape Town

Sanlam, South Africa's second-biggest life insurer and asset manager, said yesterday its forthcoming demutualisation would create a company worth up to \$2.8bn (\$2.8bn) in the country's biggest new stock market listing to date. Marinus Dalling, Sanlam executive chairman, also announced plans for a simultaneous capital raising for up to \$500m - again, South Africa's biggest - to finance further restructuring and the \$650m cost of the demutualisation itself. Sanlam's predicted market value of between \$1.4bn and \$1.8bn, calculated at the end of July, is less than expected and could fall even further after the recent stock market collapse. But the demutualisation of Sanlam this year - and of its larger rival, Old Mutual, in 1999 - is still expected to boost South Africa's sluggish economy by giving policyholders the chance of windfall profits if they sell their shares. Mr Dalling said Sanlam had considered delaying the listing, but had decided to press ahead. "I'd rather have this market collapse behind me than in front of me," he said. Provided 75 per cent of Sanlam's 2.2m policyholders who vote are in favour of demutualisation, the listing should go ahead in November or December. Each eligible policyholder would receive a minimum 200 free shares. About 2bn free shares will be issued, with an indicative value of between \$7 and \$9 as at July 31. The demutualisation will more than double the number of shareholders on the Johannesburg Stock Exchange, estimated at between 500,000 and 750,000. The new capital needed by Sanlam - originally estimated at between \$4bn and \$5bn - will be raised partly through an offer to institutions on a book-building basis. Policyholders will also be able to buy extra shares at a discount, and there will be a retail offer for the general public, with preference given to Sanlam's clients and employees. Although Old Mutual is pursuing plans to expand internationally, Mr Dalling acknowledged yesterday that he had modified his earlier objective of making Sanlam a global player in financial services. "I've subsequently come to the conclusion that this organisation is not fit enough as I would describe it to enter international markets," he said. "I think there is work to be done to improve our position in our home base." However, Gensec, the Sanlam asset management subsidiary into which it recently folded its own asset management operations, would continue to raise its international profile. Sanlam will at least be able to avoid the wrath of the South African government's leftwing allies by tuning down its international ambitions. Unlike Old Mutual, it is not considering a primary listing in London rather than Johannesburg, although it is likely to have secondary listings in London and New York to attract international investors.



Porche, the German sports car maker, plans to increase production of the Boxster model, above, which accounts for almost half its sales, at Valmet Automotive's plant in Finland. It will also raise production of the 911 model at its Stuttgart headquarters. Porche, which sold almost 16,000 Boxsters in 1998-97, has been unable to produce enough models in Stuttgart and has used Valmet to build Boxsters since 1997. Reuters, Frankfurt

**SWEDISH TELECOMS GROUP PAYS \$285M FOR MAJORITY STAKE IN ACCESS EQUIPMENT PRODUCER**

**Internet breakthrough by Ericsson**

By Gary McKinnon in Stockholm and Roger Taylor in San Francisco

Ericsson, the Swedish telecommunications company, yesterday made its first big foray into the rapidly growing internet products market by acquiring a majority stake in California-based Advanced Computer Communication for \$285m cash. Ericsson said this represented a breakthrough in its efforts to develop a portfolio of internet products. It sees these products as necessary to establish itself among the leading suppliers of data-related telecommunications services. Anders Igel, president of

Ericsson's infocom division, said the addition of ACC would enable it to offer a new range of internet access products for fixed and mobile telephone networks. ACC makes remote access equipment. This allows people to connect computers through the telephone system - for example, when an employee logs on to their work computer from home. "It is a very important step for us... having access to this technology is extremely important for the future," Mr Igel said. Ericsson would continue to pursue small-to-medium sized acquisitions in the sector to increase

its product range, he said. Ericsson, one of the world's largest suppliers of fixed and mobile telephone systems, has been criticised by some analysts for not moving as quickly as its leading rivals, such as Finland's Nokia, Alcatel of France and Northern Telecom of Canada, in acquiring US internet companies. Traditional telecoms infrastructure suppliers such as Ericsson are scrambling to keep pace with the huge changes facing their industry. Telephone systems have increasingly become conduits for computer data traffic, which has exploded because of the popularity of the internet.

Industry forecasts suggest that the volume of data traffic will be 20 times that of voice calls by early in the next century, opening up a vast new market for internet-related systems equipment. The ACC deal poses a dilemma for Siemens, the German electronics group, which also sells telephone equipment. Ericsson is buying its stake in ACC from Newbridge Networks, of Canada, which has a strategic alliance with Siemens. Under the Ericsson-ACC deal, Siemens will find itself selling the products of a competitor. Waiting to connect, Page 11

**NTT DoCoMo**

**public offering may raise \$15bn**

By Paul Abramson in Tokyo

The formal prospectus for the sale of a 28.5 per cent stake in NTT DoCoMo, the Japanese mobile telecoms group, will be issued on Monday, introducing an initial public offering that analysts say could raise \$15bn. International institutions last night questioned the wisdom of attempting such a large IPO when the markets are in such turmoil and the benchmark Nikkei 225 average has just hit a 12-year low. Fund managers said they knew little about the company, but potential investors will this week receive research from banks providing financial details of NTT DoCoMo since 1994 as well as indications of the group's prospects. Pre-marketing, co-ordinated by lead managers Nikko Securities and Goldman Sachs, will take place until September 21 when the price range should be announced. NTT DoCoMo's management will give a series of presentations beginning on September 25 in Tokyo. The following week executives will travel to European and US financial centres before returning to Tokyo on October 9. The price will be struck on October 12, and trading will start on October 22. Only 545,000 shares are being sold because Japanese regulations prevent them being split on more than a one for five basis. To get around the problem of the shares' high nominal value, the stock will be marketed as American depositary

shares, with 1,000 ADSs per share. It was decided not to list the stock overseas because there was inadequate time to prepare accounts on the US generally accepted accounting principle. The flotation will use a book-building process. No decision has been taken about the balance between the domestic and international tranches. There will be no so-called "green shoe" additional allotment of shares in case of strong demand, because NTT does not want to sell more than the 30 per cent required for NTT DoCoMo to be listed on the Tokyo stock exchange. The mobile subsidiary generates 75 per cent of NTT's operating profits. NTT DoCoMo is anxious its customers should become shareholders. However, there will be no incentives such as discounts or loyalty bonus shares that have been used in similar issues. NTT DoCoMo subscribers have grown from 1.2m in 1994 to more than 20m last year, making it the world's largest single cellular provider. Yield per customer is high and in 1997 the company achieved a return on equity of 32.6 per cent. Pre-tax profits were ¥133bn (\$60m) and net profits ¥29bn on turnover of ¥1.98bn.

Part of the reason for the high profitability is the low turnover of customers. The so-called churn rate, excluding customers replacing hand-sets, is about 1 per cent compared with the 2.5 per cent achieved by Vodafone of the UK.

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May 1998  
**GREENWICH NATWEST**



## COMPANIES &amp; FINANCE: ASIA-PACIFIC

SEMICONDUCTORS JAPANESE GROUP SEEKS TO CUT EXPOSURE TO VOLATILE D-RAM MARKET

## Matsushita to close US chipmaking plant

By Alexandra Hamey in Tokyo

Matsushita, one of Japan's largest consumer electronics groups, yesterday announced it would close its only US semiconductor plant in an attempt to reduce its exposure to the volatile dynamic random access memory (D-Ram) market.

The group is the fourth Japanese semiconductor maker this month to consolidate its chipmaking operations amid the collapse

in memory prices in the past year.

Last week, Fujitsu closed a chip factory in the UK and Hitachi merged its two US semiconductor units. Mitsubishi Electronics has launched an overhaul of its chip division, including the closure of an integrated circuit plant in the US.

The Matsushita factory in Puyallup, Washington, is managed by the group's US subsidiary. It makes 4-mega-byte memory chips but the

group said operations would shut in December. The plant is one of five manufacturing and assembly sites worldwide: the group also has facilities in Japan, Singapore, Indonesia and China.

"The decision was made in view of the increased difficulty in continuing Masca's [the US chip subsidiary] operations due to the effects of changing semiconductor market conditions, such as the sharp decline in D-Ram prices since the beginning of

last year," the company said.

The group said it was in talks with the factory's 340 employees about further jobs and was considering shifting workers to Matsushita's plant in Japan. It did not rule out further closures, but indicated it intended to maintain a presence in the market to supply its other computer component divisions with memory chips.

The move did not surprise industry observers, who agreed that Matsushita's

semiconductor business was operating at a loss. In the year ending in March, the group reported a 4 per cent improvement in component sales, including memory chips, from ¥1,512bn to ¥1,566bn (\$11.8bn). However, it said its D-Ram business had been severely hit by the 80 per cent decline in global memory prices.

Analysts said Matsushita would see efficiency gains by concentrating its operations in Japan. "There is so much

excess supply in the market that it is much smarter to focus manufacturing in one place and try to raise efficiency," said Takatoshi Yamamoto, industry analyst at Morgan Stanley in Tokyo. However, he added that the consolidation would have little effect on the global semiconductor market, as Matsushita's share of sales was extremely small.

Shares in Matsushita fell ¥40, or 1.9 per cent, to ¥2,020 yesterday.

## PBL up 161% as it names new finance chief

By Russell Baker in Sydney

Publishing & Broadcasting, the Australian media group controlled by Kerry Packer, announced a 161.6 per cent surge in net profit to A\$475.4m (US\$281m) for the year to June 30 and the appointment of a new chief financial officer.

Geoff Kleeman, who this week resigned as chief financial officer of Woolworths, the supermarket chain, will take up his position with PBL next month.

PBL's bottom-line profit was inflated by net abnormal gains of A\$358.8m, which included a A\$341m revaluation of the company's television licences in the first half of the year.

During the second half PBL booked an abnormal gain of A\$91.9m on the sale of Sky Channel, the horse race broadcaster, to TAB, the New South Wales betting agency. The Sky Channel gain offset second-half losses relating to the closure of long-term contracts providing interest-rate cover and write-downs in the carrying value of certain assets.

Excluding abnormal items PBL reported a 4.7 per cent gain in net profit to A\$190.5m. Sales increased 5 per cent to A\$1.18bn.

On a divisional basis, earnings before interest and tax (ebit) rose 12.7 per cent to \$207m in the television division and 2.1 per cent to A\$117.2 in magazines, but fell 34.2 per cent to A\$8.6m in enterprises.

The weaker performance from the enterprises division reflected reduced dividend income from the group's investments in John Fairfax, the Australian newspaper group, and Sky Channel, which were both sold during the year.

Nick Falloon, PBL chief executive, said the television division performed well "in what was a difficult market". The magazine division's slight gain reflected "problems in its overseas divisions and continuing fragmentation of the market in Australia," he said.

Commenting on prospects for the current year, Mr Falloon said "conditions since July in the advertising market have tightened with the combined impact of the Asian crisis and the uncertainty surrounding the Federal election."

The Nine television network continued to show growth and good ratings and will be aided by its coverage of the Commonwealth Games, he said.



James Packer, running his father's media empire since May 1998

However, the magazines arm would face a difficult time as the weak Australian dollar would mean higher paper prices, which had to be paid for in US dollars.

PBL said it was considering its option to equalise its interest in Foxtel, the pay

TV group, with News Limited. The option expires at the end of October and, if exercised, would see PBL with 25 per cent of Foxtel.

In May, Mr Packer handed day-to-day running of his media empire to his son, James.

## Isuzu, GM in engines venture

By Alexandra Hamey

Isuzu Motors, the Japanese car and engine maker, is to team up with General Motors, the US giant that owns 37.4 per cent of Isuzu, to manufacture and market diesel engines for small trucks and vans.

The \$100m joint venture is the latest step in the two companies' strategy to capture a share of the global diesel engine market. Last summer, Isuzu began building a diesel engine factory in Poland, which is expected to come on line in June 1999.

Isuzu will invest 60 per cent and General Motors 40 per cent in the venture, called DMAX. The company will be headed by Jun Motoki, head of Isuzu's US production preparations division, and is due to begin operations in August 2000.

The two companies have already started construction of a \$600m factory in Ohio, which will employ 700 workers and produce diesel engines for use exclusively in GM trucks. The venture aims to produce 100,000 units in the first year and to double this by 2004.

Isuzu said it would develop and manufacture the engines, and GM would conduct sales and marketing. The engines would be sold only in North America, but there were plans to

move into Europe and Asia.

"The joint venture is part of the GM group's global strategy to strengthen its diesel engine business. Ultimately, we would like to manufacture engines in Europe, North America, Japan, and the rest of Asia, in order to become the world's number one diesel engine maker," Isuzu said.

Isuzu hopes to expand its global sales of diesel engines to 1.8m units by 2005. Currently, the group sells about 200,000 units to GM, according to Warburg Dillon Read.

Analysts said the move would be expensive for debt-heavy Isuzu, which is suffering from the collapse in the truck market in Japan and elsewhere in Asia. In the year to March, the group saw a 2.8 per cent drop in profits to ¥10.1bn (\$76.3m), on turnover of ¥1,128bn.

This year, it expects earnings of only ¥1bn because of falling demand in the region. Peter Boardman, industry analyst at Warburg Dillon Read in Tokyo, said the group's debt burden would make further investments costly. He estimated Isuzu's net debt at 4.8 times equity.

"Their goals for diesel engines are realistic. It is a good long-term strategy, but it is just going to be very expensive. As an investor, I wouldn't touch it until everything comes on stream," he said.

## NEWS DIGEST

## PETROCHEMICALS

## TPI restructures with sale of non-core businesses

Thai Petrochemical Industry said yesterday that many of its "non-core" businesses would be spun off to allow strategic partners to take stakes of 30-40 per cent in them. The company would give no further details on what is Thailand's biggest debt restructuring operation with 140 creditors, except to say that it expected to see substantial debt for equity swaps. The group suspended payments of principal on its \$4.1bn in total foreign currency debts last October, although it still pays interest on these borrowings.

There has been speculation that the Leopairatana founding family will be forced to accommodate big foreign investors. Prachai Leopairatana, chief executive, said that TPI planned to spin off power plants, deep-sea ports, oil storage and petrochemical tank farms, then sell off stakes in these ventures to raise fresh capital.

The group declined to expand on its negotiations over the foreign debts of the parent company which will not be completed until at least mid-December.

The opening of Ratchaburi power plant - designed to be fuelled by the controversial Yadana gas pipeline in Burma - has been put back until late December 1999 after delays by the leading contractor Mitsui, according to the state-owned Electricity Generating Authority of Thailand.

The 1,800MW combined-cycle plant was supposed to start operating last month. William Barnes, Bangkok

## COMPUTER MANUFACTURING

## Acer continues EU investment

Acer, the Taiwanese personal computer maker, said it would not stop its investments in Europe despite scrapping its plans to buy a PC production plant in Augsburg, Germany, from Siemens Nixdorf. Stan Shih, Acer chairman, said: "We will invest more in Europe because we think the economy there is still good and we have a good team in Europe." He added: "We'll continue to increase our investments in Europe step by step." The company said its top priority was to revamp its loss-making semiconductor unit, formerly known as TI-Acer. AP-DJ, Taipei

## RETAIL BANKING

## AMP buys into New Zealand

AMP, the Australian insurer, said its subsidiary AMP Bank would acquire Citibank's New Zealand retail banking business for an undisclosed sum. The acquisition will add more than NZ\$400m (US\$205m) in mortgages and NZ\$100m in retail deposits to AMP's operations. "The portfolio, customer base and distribution systems fit well with AMP's plans for full service retail banking in New Zealand," said Stephen Balme, AMP Banking managing director.

AMP Bank, which trades as AMP Banking in Australia, is applying for a New Zealand branch licence to allow it to operate Citibank's existing New Zealand retail portfolio. AFX-Asia, Sydney

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COMMERZBANK

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Société Anonyme  
Registered office: 25, Boulevard Joseph II - L-1840 Luxembourg  
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Notice is given of the extraordinary general meeting of shareholders which will be held on September 18, 1998 at 15:00 hrs. at Banque de Luxembourg, 14, Boulevard Royal, 2449 Luxembourg.

## AGENDA

1. Reduction of the issued capital;
2. Acquisition of own shares by the Company;
3. Cancellation of own shares;
4. Amendment of article 5 of the articles of association;
5. Miscellaneous.

The Board of Directors

Gen books

Gen shares rise on  
to sales growth

Gen buy back shares

Gen confirms US arms

SIGNET

USD 60 million



## COMPANIES &amp; FINANCE: EUROPE

BANKING FRENCH FINANCIAL INSTITUTION PUTS PRICE ON ITS EXPOSURE TO COUNTRIES HIT BY ECONOMIC DOWNTURN

## SocGen books FFr2.5bn emerging markets provision

By David Owen in Paris

Société Générale yesterday became the first French bank to seek to quantify the impact of the Russian crisis, booking a general provision of FFr2.5bn (\$400m) in its first-half results.

It said it had made provision to "take into account the emerging markets crisis triggered by the Russian financial collapse in

August". Its Russian commitments had been reduced since the end of 1997.

Current exposure at risk in the country mainly related to banking counterparties and government bonds and represented an amount of \$500m.

The bank also reinforced its risk provisioning on exposure in sensitive Asian countries, through an additional provision of FFr3.5bn. This

took overall provisioning of such commitments to 19.4 per cent of the total at June 30, against 10.4 per cent six months earlier.

Overall commitments in the five "most sensitive" Asian countries - Thailand, Malaysia, the Philippines, Indonesia and South Korea - stood at FFr42.5bn on June 30, with FFr22.1bn of the total in South Korea.

The extra provision was to

take account of "the deterioration of the situation in this region, notably in Indonesia".

The group still managed to report a 9 per cent advance, from FFr3.7bn to FFr4.1bn, in group net income. This was at the lower end of analysts' expectations. Gross operating income advanced to FFr9.5bn, an improvement of more than 21 per cent.

The figures were released

after the stock market closed. Nevertheless, bank shares, including Société Générale, were marked down heavily during the day.

At close of trading, Société Générale was down FFr40, or 4 per cent, at FFr954. This compared with falls of 3.7 per cent for Paribas, 5.5 per cent for Banque Nationale de Paris, 7.5 per cent for Crédit Commercial de France - and about 1 per

cent for the benchmark CAC 40 index.

Three banks - Paribas, CCF and BNP - report today, with Crédit Agricole and Crédit Lyonnais due to release interim figures next week.

Gross operating income from retail banking stood at FFr4.1bn, up 5.4 per cent, while income from asset management and private banking reached FFr700m,

ahead 23.7 per cent. This reflected the growth from FFr630m at June 30 1997 to FFr730m a year later, of assets under management.

Half of the growth was attributed to acquisitions. In January, Société Générale Asset Management bought 85 per cent of Yamachi International Capital Management, one of Japan's largest fund management companies.

Gross operating income from worldwide corporate and investment banking activities stood at FFr4.4bn - an increase of 44.3 per cent.

However, income was expected to be "noticeably lower" in the second half, due to the markets' recent deterioration.

Interim net earnings per share were FFr40.70, against FFr39.50.

## NEWS DIGEST

## FASHION

## Gucci shares rise on return to sales growth

Gucci, the Italian fashion group, saw its shares rise sharply by 3 1/4% to \$39 1/2 early yesterday after reporting a return to sales growth during the second quarter of this year, following a decline in the first quarter. Domenico De Sole, president, said Gucci was "very encouraged" by the increase in net revenue to \$237m during the three months to July 31, up 6 per cent over the same period last year.

Like other luxury brands, Gucci has been hit by the Asian crisis and volatile markets. First-quarter net income fell to \$43.15m from \$48.04m a year ago, as net revenue slipped to \$250.66m from \$254.32m.

Gucci reports details of its second-quarter results later this month. However, the return to revenue growth comes as the group is still reeling from the revelation in June that arch-rival Prada had spent \$240m on buying 9.5 per cent of its equity. That triggered speculation that Prada was preparing a bid, possibly in partnership with a larger Italian group. Since then, Prada has not bought any more shares and, according to Gucci, its stake remained at 9.5 per cent yesterday. Alice Rawsthorn

## TOBACCO

## Setia to buy back shares

Setia, the French tobacco group, yesterday reported a 20 per cent improvement in first-half profits and said it would soon launch a share buy-back programme covering 10 per cent of its share capital.

The move follows the recent official publication of new rules on buy-backs by the Commission des Opérations de Bourse, the French stock market watchdog. Setia also said it would launch from next week a share issue, limited to 1 per cent of its share capital, to the benefit of its employee stock ownership plan.

Net attributable profits reached FFr425m (\$73.3m) on net sales of FFr5.36bn, against FFr356m on sales of FFr5.89bn the previous year. Operating income was up 8 per cent at FFr641m.

The company said the first half had been characterised by the end of a price war in France and a sharp upturn in volume growth for the blond, or light, tobacco segment. The price repatriation of some of the group's brands, and a reorganisation of its sales force, had helped it to regain market share in blond tobacco cigarettes.

Setia said it had renewed for three years the licence agreement with BAT in France under which Setia manufactures and distributes BAT's main brands, as well as the agreement in Germany where BAT is Setia's partner for the distribution of Gauloises Blondes. The shares closed up 2.1 per cent at FFr283. David Owen, Paris

## INVESTMENT BANKING

## Dresdner confirms US aims

Dresdner Bank yesterday reaffirmed its intention of expanding in US investment banking, possibly through a merger or acquisition. But Bernhard Walter, the chairman, declined to comment on reports - which first emerged a month ago - that it was interested in FaineWebber, the US brokerage.

He said Dresdner, Germany's third largest bank after the creation of Bayerische Hypo- und Vereinsbank through a merger, did not exclude mergers or acquisitions as a means of growing in the US. "We certainly have to strengthen our investment banking activities in the US," he said at a banking conference. However, any decision on a merger would have to fit in with Dresdner's strategy and the price would have to be right. Nor would the bank allow itself to be put under any time pressure, he added. Analysts have suggested that Allianz, the German insurance group which is a big shareholder in Dresdner, might join the bank in any US deal.

Mr Walter's comments come as expectations are rising that Dresdner and Deutsche Bank, Germany's biggest bank, will make significant expansion moves in the US. Both banks also want to develop their business in France. However, Dresdner declined to comment on reports it was interested in taking a stake in Crédit Lyonnais, the state-controlled French bank due to be privatised.

Andrew Fisher, Frankfurt

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

## Credit Suisse posts 36% rise at interim stage

By William Hall in Zurich

Credit Suisse, the Swiss banking group, yesterday unveiled a 36 per cent increase in first-half net profits, to SFr2.4bn (\$1.69bn), primarily because of a one-third rise in trading profits and fee income, and a return to profit in its troubled domestic banking business.

The group's first-half performance was much stronger than that of the enlarged

UBS created from its merger with Swiss Bank Corporation. First-half net profits at UBS, after adjusting for special factors, rose 5 per cent to SFr3bn. Its 14 per cent rise in revenues to SFr14.5bn was much slower than the 22 per cent advance at Credit Suisse to SFr12.5bn.

Credit Suisse's net interest earnings rose 13 per cent, to SFr2.8bn, in line with UBS's experience. However, the 34 per cent rise in net trading

income at Credit Suisse, to SFr2.5bn, compares with an 11 per cent drop at UBS, to SFr3.2bn.

Similarly, Credit Suisse's net commission and fee income rose 34 per cent, to SFr4.3bn, or more than twice as fast as in UBS's case. The biggest contributor to profits at Credit Suisse remains Credit Suisse First Boston, the group's investment bank, which had already reported a 26 per

cent increase in first-half net profits, to SFr1.1bn.

CSFB's cost-income ratio deteriorated slightly, but its 21 per cent return on equity was above its target of 15 per cent plus.

Credit Suisse Private Banking, the group's second biggest business, lifted net profits 24 per cent, to SFr829m. Its assets under management grew 12.5 per cent, to SFr428bn, and its return on assets under man-

agement of 41 basis points has moved into the lower end of the group target of 40-50 basis points.

The group's domestic banking operation reported a SFr10m net profit, against a SFr10m loss last year. Its return on equity of 8.4 per cent is well below the target of 10-12 per cent. But its cost-income ratio has fallen from 85 per cent to 74 per cent, against a target of 66 per cent.

The second underperforming business, Credit Suisse Asset Management, reported a 73 per cent rise in net profits, to SFr121m. Its return on assets under management fell to 8.5 basis points, against a target of 12-15 points. The newest part of the group's business, Winterthur Insurance, lifted its net profit 20 per cent, to SFr232m.

Lux, Page 12

## Huhtamaki shares dive on Russia warning

By Greg Meyer in Stockholm

Shares in Huhtamaki plunged more than 20 per cent yesterday after the Finnish confectionery and food packaging group warned full-year profits would be lower than expected because of the Russian crisis.

The company said reduced sales to Russia - which accounts for about 4 per cent of annual turnover - and credit and foreign exchange losses linked to its activities there would push 1998 profits below last year's Fm519m (\$98.7m). Huhtamaki had previously predicted higher profits this year.

Huhtamaki said it had expected Russian sales of about Fm300m this year, but the business came almost to a standstill last month and could incur losses for the whole year.

Huhtamaki's most-traded i-shares tumbled Fm68 to Fm200 in heavy trading.

The fall underlined the concern among investors in Finland - the only European Union state which borders Russia - about the country's exposure to Russian financial turmoil.


The company is the latest Finnish group to warn of adverse trading conditions in Russia. Raisio, the food and chemicals group, last week announced that its Russian exports had ground to a halt because of the lack of a rouble exchange rate.

Huhtamaki executives attempted to play down the impact of the crisis, stressing the small size of the Russian market in proportion to the group annual sales of Fm7.5bn.

However, Markku Pietinen, a senior Huhtamaki official, admitted the negative outlook was unlikely to be reversed quickly. "We believe things will not turn good overnight," he said.

The company's Russian-related activities centre on confectionery exports, packaging sales to other food exporters, and locally produced food containers.

All of these securities having been sold, this announcement appears as a matter of record only.



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United States Offering  
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Goldman, Sachs & Co. ABN AMRO Rothschild

Credit Suisse First Boston

Portuguese Institutional Offering  
12,850,000 Ordinary Shares

BPI - Banco Português de Investimento Banco CIBF Banco ESSI

Banco Chemical Finance Caixa Geral de Depósitos Banco Mello de Investimentos Central Banco de Investimento

Portuguese Retail Offering  
69,150,000 Ordinary Shares

BPI - Banco Português de Investimento Banco BPI Banco Borges & Irmão Banco Espírito Santo Banco Internacional de Crédito

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Banco Pinto & Sotto Mayor Banco Totta & Azevedo Crédito Predial Português

Banco Mello Banco Bilbao Viscaya (Portugal) Banco Santander Portugal

Banif - Banco Internacional do Funchal Caixa Económica Montepio Geral

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September 1998

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Signet Group plc

USD 60 million

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July 1998



## COMPANIES &amp; FINANCE: EUROPE

FRANCE CARMARKING GROUP REPORTS FOUR-FOLD PROFITS RISE FOLLOWING HEAVY LOSSES LAST YEAR

## Sales boost for Peugeot-Citroën

By David Owen in Paris

Shares in Peugeot-Citroën climbed sharply yesterday after the French carmaker reported a more than four-fold increase in first-half profits, at the top end of analysts' expectations.

The strong performance, which follows a heavy 1997 full-year loss, is likely to bolster confidence in Jean-Martin Folz, the new chairman who took over last October.

Coupled with the solid performance of the big French energy groups in the face of low crude oil prices, the figures have helped the French industrial reporting season get off to a positive start.

Several big French industrial groups are due to report next week.

Net attributable first-half income climbed to FF2.22bn (\$382.8m), against FF505m in 1997, on sales up 15 per cent to FF116bn.

Operating income, was more than five times, 1997 levels at FF4.48bn, or 3.9 per cent of sales.

The bulk of this figure came from the automobile division, which posted operating income of FF2.8bn,

making for a margin of 2.5 per cent.

The company said the improvement reflected a significant increase in units sold by Peugeot and Citroën in all markets, as well as intensified efforts to cut costs. The automotive equipment business weighed in with income of FF358m, while finance companies contributed FF709m.

The company said the "good results" reflected favourable conditions in European car markets, as well as the implementation of new priorities.

Under Mr Folz's leadership, the group has embarked on an industrial and management reorganisation.

Earlier this year, the chairman summarised his task as "correcting three weaknesses": a lack of volume, a lack of innovation and a lack of profitability.

For the full year, the group said it expected the European car market to expand by 3 per cent. In such conditions, the company "should be able to exceed significantly the targets for 1998, ie, an operating margin of at least 1.5 per

cent in the automobile division and consolidated operating income of more than FF5bn".

Today, the group's product range will be enhanced by the new Peugeot 206, the replacement for the 205, which, with 5.3m units sold since 1983, is among its best-selling models.

Net income per share climbed to FF44, against FF10 a year ago.

The shares closed up FF32, or 4.3 per cent, in Paris at FF1013, against a 1 per cent fall for the benchmark CAC 40 index.

## BAA in airports bids link-up

By Paul Betts in Milan

Carlo De Benedetti, the former chairman of Olivetti, yesterday teamed with BAA, the privatised British Airports Authority, to bid in the planned privatisation of Italian airports.

The partnership between Mr De Benedetti's CIR industrial holding group and BAA, one of the world's leading airport operators, will compete against another powerful alliance between Benetton, the Italian clothing group, and Marco Tronchetti Provera, the chairman of Pirelli, the Italian tyre and cable company.

Mr De Benedetti's link-up with BAA is his first significant business initiative since he stepped down at Olivetti and sold his stake in the Italian information technology and telecommunications group. He was forced out after Olivetti teetered on the brink of collapse 18 months ago. Since then Olivetti has staged a spectacular financial recovery.

CIR said yesterday its move into the airports business was part of a strategy to develop a presence in the service sector. CIR currently owns interests in publishing, car components and industrial machinery.

The sale by the Treasury



Buyout sales: Italian airports, such as Linate, Milan, are attracting buyers' attention. Trevor Humphries

of its remaining 55 per cent stake in Aeroporti di Roma, the Rome airport operator, is expected to be the first target of the new partnership. The entry by Mr De Benedetti and BAA yesterday sent Aeroporti di Roma's shares up 2.4 per cent.

Milan's Linate airport and the new Malpensa hub are also expected to be sold off by the local and regional authorities.

BAA, which operates seven airports in the UK and

another seven overseas, is already present in Italy as operator of the Naples airport, Capodichino. The UK group, led by Sir John Egan, has also acquired a leadership role in developing profitable retailing at its airports operations.

Benetton this year forged a partnership - Hermes - with Tronchetti Provera, of Pirelli, to bid for airport business in Italy. Edizioni Holding, the Benetton family holding company, has been

diversifying into service sectors. It took control of the Autogrill motorway restaurant and cafe chain, and has expressed interest in forming with other partners the new hard core shareholding of Autostrade when the motorway group is privatised.

Nicola Trussardi, the Italian fashion designer, yesterday said he was also interested in investing with other partners in Aeroporti di Roma.

## Poor domestic sales leave Grolsch flat

By Gordon Cramb in Amsterdam

Grolsch, the Dutch brewer of premium beers, yesterday revealed flat interim profits and said no improvement could be expected for the full year.

The news came as a further disappointment to shareholders, following the rejection at the end of last month of a bid approach by Interbrew of Belgium. The shares fell F13.50, or 5.3 per cent, to F155.

The summer season has been considerably poorer in 1998 than in the previous year, when August was a record month. Grolsch said of its domestic sales, which account for about 65 per cent of the total.

The statement also unsettled shares in Heineken, which fell F13, or 3.5 per cent, to F183.30.

Although the rival brewer is much larger and more internationally diverse, the Netherlands still accounts for around 17 per cent of its turnover. Analysts were yesterday downgrading their earnings expectations for Heineken ahead of its first-half results, due tomorrow.

At Grolsch, net profits were unchanged at F17.5m (\$9.1m) on revenues 1.1 per cent higher at F1270.7m. For the full year, it expected to maintain earnings at F150m.

The 1997 figures were restated to reflect the dis-

posal of Ruddies in the UK and of its stake in the Polish Brewpol, deals which marked a retreat from a European expansion strategy.

While a hostile bid is unlikely, as Grolsch shares are largely held in the form of non-voting certificates, pressure for management to be more responsive to an approach has been coming from VEB, the Dutch shareholders' association, and from the De Groen family, which has the largest single stake.

Grolsch is seeking export and licensing deals abroad while building a F1300m brewery at its base in Enschede, near the German border, to replace two existing facilities.

At a shareholder meeting on Tuesday, the board defended its dismissive reaction to Interbrew, which had wanted this project to be called off and instead use its own plants to provide needed capacity.

Directors said their decision to reject Interbrew was made "in even-handed consideration of the interests of all stakeholders".

Jacques Troch, chairman, added that this did not mean independence at any price. "We are ourselves also investigating what possible cooperation with others could deliver in added value."

## Näckebro dismissive of Drott offer

By Greg Melner in Stockholm

Näckebro, the Swedish real estate company, yesterday said that a SKR3bn (\$377m) takeover bid for it by Drott, a larger rival, undervalued its assets and urged shareholders not to sell pending an external valuation of its business.

However, Näckebro - which last week bought a large stake in Drott in the hope of achieving a tie-up between the two - said it remained convinced that a merger was "industrially correct".

Drott, which is in the process of being floated by construction company Skanska, was taken by surprise when Näckebro on Friday acquired 44.5 per cent of its voting rights and 10.7 per cent of the share capital for SKR1.1bn.

Mats Dared, Drott managing director, said yesterday his company's bid was an attempt to dictate merger terms which would be favourable for its shareholders.

He said a tie-up was "within Drott's strategy", although it is mainly weighted towards residential property while Näckebro has greater exposure to the commercial market.

Analysts were generally positive to a merger, although Drott's move was described as defensive.

"Näckebro was too dangerous to have running around with nearly a controlling stake," said Hans-Olov Oberg, real estate specialist at Deutsche Morgan Grenfell in Stockholm.

The SKR3bn all-cash offer is to be financed by debt but constitutes no problem for Drott's balance sheet, which is virtually debt-free.

A takeover would create Sweden's largest listed real estate group, with a market capitalisation of about SKR1.1bn, and could also herald more consolidation of the sector.

"For some time we have been predicting forthcoming mergers and acquisitions without seeing much sign of them," Mr Oberg said. "I would be surprised not to see more transactions after this one."

Näckebro, which is believed to be pressing for four of the five seats on Drott's board, suggested Drott's SKR125a share offer was too low.

It said it had visible shareholders' equity of about SKR153a share and has commissioned an external valuation of its assets.

However, Mr Dared said the bid represented a 20 per cent premium to Näckebro's pre-offer share price.

Näckebro shares were unchanged yesterday at SKR127.

## Telefónica in talks about radio buy

By David White in Madrid

Telefónica, the Spanish telecommunications group, is poised to take a further significant step in its controversial expansion into the media by purchasing the country's third largest radio network.

The deal, which could be concluded this week, involves a chain of almost 100 stations belonging to Spain's National Blind People's Organisation (Once) and estimated to be worth Pta18bn-Pta30bn (\$120m-\$200m).

It would be carried out through the Antena 3 television channel, in which Telefónica has management control.

The radio stations form part of the Onda Cero network, which has a combined audience of 2m. The planned deal would exclude more than 70 Onda Cero stations separately owned by Blas Herrero, businessman, and star radio presenter Luis del Olmo, who envisage setting up an independent network.

Telefónica's plan reflects a determined effort in the past two years by Juan Villalonga, its chairman, to build a multimedia business in Spain and Latin America.

Beginning with the establishment of a platform for digital satellite television, Via Digital, Telefónica took the industry by surprise last July by taking a 25 per cent stake in Antena 3, for Pta26bn. The deal gave it the maximum permitted interest by a single shareholder.

Shortly afterwards it reached an agreement with Pearson, the UK group which publishes the Financial Times, to take 20 per cent in newspaper and magazine publisher Recoletos for Pta23bn. Pearson became a 10 per cent shareholder in Antena 3 under the accord.

Recoletos, in which Pearson now holds 75 per cent, has Marca, the top Spanish sports paper, and Expansión, the leading business daily, among its titles. The Telefónica group's media interests also include cable TV in Argentina, Chile and Peru.

Once's radio group incurred a loss of Pta790m last year. The organisation has been looking for a buyer in a change of policy which has already led it to sell a stake in Spain's Tele 5 television channel. Apart from Telefónica it has also held talks with Bilbao-based regional press group Grupo Correo.

It set up Onda Cero in 1990 when it bought a chain of radio stations from the Rato family (which includes Rodrigo Rato, Spain's current economy and finance minister). It also controls a news agency, Servimedia.

Onda Cero has the largest radio audience in Spain after Cadena Ser, which belongs to the Prisa publishing empire, and the Church-controlled Cope group.

COMMERCIAL VEHICLES HEAVY EUROPEAN DEMAND HAS LIFTED SALES ACROSS THE BOARD AT THE FIAT UNIT

## Iveco set to announce surge in profits

By Haig Simonian in Milan

Iveco, the commercial vehicles arm of Italy's Fiat, should report sharply higher sales and profits when the group reports its first-half results on September 22.

Giancarlo Boschetti, Iveco chief executive, said sales would be about 12 per cent higher than in the same period last year, while profits would be "by a wide measure superior".

Iveco had sales of L5.482bn and operating profits of L124bn (\$72.7m) in the first half of 1997.

Speaking at the launch of the group's revived heavy truck range, using the first in a new family of fuel-efficient engines, Mr Boschetti said Iveco would continue to push into new markets such as China, India and South America.

He denied Iveco was negotiating further big deals such as the bus joint venture agreed with France's Renault VI, announced in May. However, he stressed the company would continue streamlining its structure and reinforcing its finances to be flexible enough to take

advantage of "any favourable situations the market provided".

Relations with RVI remain close. The French company bought more than 80,000 diesel engines a year from Iveco, and the two groups had co-operated on developing a new cab for vans. But while the bus alliance, which has still to be named, marked an additional tightening of links, "we have never talked about a further step," he said.

The commercial vehicles industry has been rife with speculation about consolida-

tion after persistent reports that Germany's Volkswagen, Europe's biggest carmaker, planned to expand into heavy trucks.

Mr Boschetti said he thought further consolidation was probably inevitable given the contraction that had already taken place among manufacturers and the severe pressure on prices in most regions. In spite of buoyant sales volumes,

Iveco remained committed to heavy trucks, he said, and its new engines and revised vehicles should help to restore its position.

Many analysts say the company's reputation as a heavy truck maker may be difficult to improve, compared with specialists such as Scania, and question Iveco's long-term future in such vehicles.

Iveco's share of the European heavy truck market slipped to about 10 per cent after recent restructuring, but has since recovered to 11-12 per cent.

Iveco's sales have surged across the board this year on the back of heavy European demand for all types of commercial vehicles.

## "HOLDERBANK" 1998 HALF-YEAR REPORT

With operations in over 60 countries on 6 continents and a consolidated annual capacity of approximately 80 million tonnes, "Holderbank" is the world's leading cement producer.



First half	1998	±%
Sales of cement and clinker in million t	31.7	+2.3
Sales of aggregates in million t	38.0	+8.0
Sales of concrete in million m³	10.0	+11.1
Net sales in million CHF	5,360.0	+1.8
Operating profit in million CHF	719.0	+21.5
Group net income in million CHF	290.0	+32.4
Cash flow from operating activities in million CHF	485.0	+76.4

\*Variation against first half 1997.

## Encouraging half-year results

"Holderbank" has substantially improved its earnings power. The company's successful performance was driven by the three large Group regions Europe, North America and Latin America. As anticipated, sales of building materials were somewhat down in Africa, the Near East, Asia and Oceania. Group net income grew by around one third to 290 million Swiss francs on higher margins. Cash flow from operating activities showed a particularly impressive increase.

## Net sales per region

Asia, Oceania 5.7%
Africa, Near East 7.9%
Europe 42.2%
Latin America 24.0%
North America 20.2%



## Outlook

Even if individual Group regions lose momentum in the second half of 1998, "Holderbank" still expects to see a significant increase in consolidated net income for the year as a whole. The various cost efficiency programs the company has launched, which will have their full impact for the first time in 1998, will make a key contribution to achieving this goal.

## Strategy for success

"Holderbank's" strength is based on its global presence, a focus on cement, cost and market leadership in numerous markets and a personnel development policy shaped by a desire to be a "faster learning Group".

## "HOLDERBANK"

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The full half-year report can be obtained from:

"Holderbank" shares are listed on Swiss Exchange SIX and are also traded on SEAQ International in London and as ADRs in the USA.

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# Who puts the theory into practice in equities trading?



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## COMPANIES &amp; FINANCE: THE AMERICAS

INFORMATION MANAGEMENT TIE-UP IS IN LINE WITH COPIER COMPANY'S PARTNERSHIP STRATEGY

## Xerox and IBM link to lift market share

By Richard Waters

Xerox and IBM are expected to announce a broad strategic partnership today that both companies claim will strengthen their position in the fast-growing market for managing and sharing information on office computer networks.

The move marks the most significant tie-up of its kind yet for Xerox, which recently turned to partner-

ships in its efforts to break away from its traditional black and white photocopier business and extend its reach in the digital age.

The arrangement also appeared to reflect the growing influence at Xerox of Rick Thoman, the former IBM chief financial officer who moved to the company a year ago as president.

Mr Thoman "has been looking for complementary opportunities" between the

two companies, said Mark Hill, head of Xerox's office business division. "We recognise that we can't do all the pieces ourselves" when it comes to supplying equipment for and servicing office networks, he added.

The first result of the partnership, due to be announced today, will involve the joint development and marketing of company-wide systems for managing the flow of documents.

Xerox machines will act as the "on-ramps and off-ramps" to the network, with IBM's Domino and Lotus Notes software managing the handling of electronic files.

Mr Hill said most office networks are linked to printers which create hard copies from electronic files, but few use scanning machines to turn paper back into electronic files. The two companies hope to overcome this

with what they claim will be a simplified way of handling information, from scanning paper documents to sending e-mail and faxes.

"Expanding network scanning and printing... is central to our strategy," Mr Hill added, with Xerox's office business division "on its way to being a film business". The company's two-year-old push into digital copiers and printers has accelerated in recent months, with reve-

lues from digital machines growing at 37 per cent in the most recent quarter.

The companies said their relationship would not be exclusive. Xerox is already working on a similar initiative with Adobe.

Besides combining their technology, IBM and Xerox said they would jointly market their services to large companies - a move that may lead to further joint initiatives.

## Procter &amp; Gamble succumbs to Wall Street blues

The good cop bows out of the soap wars to leave the ruthless bad cop running the show, writes Richard Tomkins

When John Pepper and Durk Jager took over the top two jobs at Procter & Gamble in July 1995, they were widely portrayed as a good cop, bad cop act - Mr Pepper, the gentlemanly consensus builder, and Mr Jager, the ruthless hard man.

Barely three years into his job, the good cop seems to have decided that being nice is not enough. Mr Pepper is to step down, leaving the bad cop to run the US consumer group alone.

To put these events in perspective, it helps to return briefly to the period before Mr Pepper and Mr Jager took over - to the five years in which the company was led by Ed Artzt, the so-called "Prince of Darkness".

Mr Artzt was a notoriously tough boss. It was under him that P&G had its last big reorganisation - a massive worldwide cost-cutting that closed 30 plants and resulted in the loss of 13,000 jobs, or 12 per cent of the workforce. While Mr Artzt may not have been the most popular chairman and chief executive P&G ever had, he delivered results. As savings from the cost-cutting flowed through, the company's earnings rose sharply - from \$1.5bn to \$2.5bn in the five years to June 1995.

When Mr Artzt retired at 65, Mr Pepper and Mr Jager were strong contenders for his job; but the tough Mr Jager, regarded as Mr Artzt's protégé, seemed the natural inheritor of his mantle.

But the P&G board, apparently considering it was time to rebuild morale after the heavy cost-cutting, decided instead to appoint the friendly Mr Pepper as chairman and chief executive, putting Mr Jager beneath him in the newly created job of chief operating officer.

It seemed an unlikely combination: the two were as different as chalk and cheese. But if they were ever at odds with one another, they concealed it well.

In their rare public appearances, they cheerfully exchanged banter. The business itself, however, was not going well. Instead of trying to cut costs even further, Mr Pepper decided to go all out for top-line growth, setting an ambitious goal of doubling worldwide sales to \$70bn in the 10 years to June 2006.

This was never going to be easy because - even though vast new markets have opened up to P&G as the barriers to world trade have come down - most of the company's sales are in the mature and highly competitive markets of North America and western Europe.

Even before the latest turmoil had hit world markets, the company had been falling far short of Mr Pepper's target.

Increasing sales by 100 per cent over 10 years meant increasing them by 7 per cent a year; but in the year to June 1997, P&G's sales rose by only 1 per cent, and in the latest period, the year



On his way out: John Pepper will leave Durk Jager in charge

to June 1998, they rose by only 4 per cent.

Last month, after the company reported its latest figures, its shares went into a nose-dive amid increasing worries that it was going to miss its growth target. Yesterday, in spite of the company's insistence that it was sticking by its long-term goal, the shares tumbled again after P&G revealed that volumes in its current quarter were flat.

Perhaps the most disturbing aspect of the slow growth is that P&G is not blaming it on the troubles afflicting emerging markets, which still account for a relatively small part of its revenues. More worryingly, it is failing to make significant gains in its biggest and most important markets - North America and western Europe.

The aim of P&G's latest reorganisation is to put that right by making the company more innovative, more responsive to the market place, and quicker off the mark in bringing new products to all its markets around the world.

P&G's employees seem likely to face considerable disruption as the changes are implemented. Some will lose their jobs, and nearly all will find themselves working in different divisional structures, perhaps with different managers.

And above all, the ruthless Mr Jager will be running the show - although both Mr Pepper and Mr Jager were doing their best to play down the significance of the change.

Bartering to the last, Mr Pepper said "good cop, bad cop" had never been a very apt description of the way he and Mr Jager worked together. And Mr Jager said reassuringly: "Both of us turned 180 degrees. It's now the other way around."

## Ciena shares fall 28% on lost contract

By Roger Taylor in San Francisco

The ill-fated attempts by Tellabs, the US telephone equipment company, to buy Ciena, the optical networking giant, ran into yet more problems yesterday, when Ciena's share price fell 28 per cent following news of a lost contract.

The deal, which has already had to be renegotiated under similar circum-

stances, now appears to be in the balance once again.

Tellabs' revised all-share offer values Ciena at about \$3.7bn following a 7 per cent rise in Tellabs shares to \$46. However, after Ciena's shares dropped 27% to \$30 yesterday, the market was valuing the business at little more than \$2bn. This compares with the high, earlier this year, of more than \$5bn.

The plunge in Ciena's share price followed the

news that Digital Teleport, a competitive local exchange telephone company based in St Louis, had awarded most of its contract for optical networking equipment to Pirelli of Italy. Ciena was also thought to be in line for the business.

This is the second time that failure to win an order has sent Ciena's share price sharply down. The original deal between Tellabs and Ciena was ac-

quired after AT&T, the long-distance operator, announced it was not going to buy machines from Ciena just as shareholders were due to vote on the Tellabs/Ciena link-up.

The two companies have since renegotiated the deal, with Tellabs reducing its all-share offer from one Tellabs share to 0.5 Tellabs shares for each Ciena share. Last week, Michael Rirk, chief executive of Tellabs,

said he was confident the deal would now go ahead under the revised terms, and shook off concerns that the volatility in the stock market could put his plans at risk.

However, analysts yesterday warned that the current wide divergence between the two companies' share prices and growing concerns at Ciena's failure to win business could force him to reconsider.

## NEWS DIGEST

## TELECOMMUNICATIONS

## Brazilian government set to licence competition

The Brazilian government has published tender documents for the sale of so-called "mirror licences" to operate fixed telephone services in competition with the Telebrás network privatised in July. Four licences will be sold on December 2: three for regional services and one for long distance and international services.

Anatel, the telecommunications watchdog responsible for the sale, set "reference" prices for the four licences totalling R\$2.2bn (US\$1.87bn). The amount is well below the R\$5bn the government said it expected to receive for the licences before the outbreak of the global financial crisis. Bidders will be awarded points based on technical proposals and on price offered. Points for price will be determined by variations from the reference price. The combined minimum price for the four companies is R\$200m.

The companies with which mirror licence holders will compete were sold on July 29 for a total of R\$13.94bn. Unlike existing companies, mirror companies must begin operating from scratch and are not subject to performance targets set for the former Telebrás companies.

International operators such as GTE and BellSouth of the US, Deutsche Telekom and France Telecom are understood to be interested in bidding for the licences. One consortium has already been formed, between Splice, the US operator, and Inepar, a group of Brazilian investors. Jonathan Wheatley, São Paulo

## PROPERTY INVESTMENT

## Concern at merger collapse

The collapse of the planned merger of two hotel real estate investment trusts (REITs) has prompted concern that other REIT deals may have to be changed or cancelled, as a result of the sector's dire stock market performance in recent months. Equity Inns, based in Memphis, Tennessee, called off its purchase of RFS Hotel Investors, also based in Memphis, on Tuesday. The deal was originally valued at \$980m including \$330m of debt, but it was predicated on Equity Inns' share price not falling below \$14. It stood at \$11.5 on Wednesday. Equity Inns blamed market conditions, and said the deal was no longer in the best interests of shareholders.

It also said that the anticipated sale of existing RFS leases had fallen through and the debt needed to finance the transaction had become more expensive. Analysts said they were watching for problems with other similar deals, such as Cornerstone Properties' \$1.77bn acquisition of William Wilson & Associates. Some say there could be a slowdown in the pace of acquisitions in the sector, which has already been hit by a change in federal tax law which eliminated a tax break for acquisitions.

The sector has fallen from favour this year, even before recent broader market weakness, as the supply of new property has slowed the growth of rent revenues. Tracy Corrigan, New York

## MANUFACTURING

## Forecast boosts Maytag shares

Shares in Maytag rose 11%, or 4.2 per cent, to \$46 yesterday after the white goods maker said its third-quarter earnings would surpass expectations. It forecast that sales for the quarter would be up as much as 20 per cent on the \$855.3m it achieved in the corresponding period.

Like many makers of household appliances, Maytag has benefited, in part, from a robust housing market. While new home sales fell 1.6 per cent in July, according to the Commerce Department, the rate of new home sales for the first seven months of the year is nearly 10 per cent ahead of last year's pace.

"Exceptionally strong sales of major appliances, floor-care products and vending equipment drove our record first-half performance, and that momentum has continued in the third quarter," said Leonard Hadley, chairman and chief executive of the Newton, Iowa, company.

"Maytag's sales in the third quarter should be above the \$1bn mark for the third quarter in a row, and we expect earnings per share in the quarter to be better than the current \$0.70 consensus estimate of financial analysts published by First Call," he said. Agencies

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## Iridium halts mobile phone launch

By Christopher Price

The high-risk nature of satellite communications was underlined yesterday when Iridium announced it was postponing the launch of the world's first global hand-held mobile phone service due to technical difficulties.

The US-based group, which was due to have launched its service on September 23, said it needed more time to test the \$5bn system.

In addition, software problems in some of the handsets were being addressed, while one of the 66 satellites in orbit had malfunctioned and would probably need replacing.

Ed Staiano, chief executive, said a full commercial service would now be launched on November 1. "We have been conducting some tests but we want to test the system with hundreds of thousands of calls in every conceivable circumstance."

The Iridium service will be the first to allow calls to be made and received by mobile phone from anywhere in the world.

However, the group received its first setback last month when two of its other satellites failed.

Mr Staiano said Iridium was prepared for a satellite failure every two months. It launched five at the weekend in order to replace the

failures and have some in reserve.

Other aspects of the launch had also fallen behind schedule, but were being addressed. Motorola, the company's biggest shareholder, was due to begin shipping handsets next week for the extensive subscriber trials. These are expected to retail for \$3,000 each.

However, handsets from a Japanese manufacturer had run into software problems, although these were expected to be solved in time for the November launch.

Mr Staiano said the company was also dissatisfied with how potential customers were being treated. Some 400,000 enquiries had been received, prompted by

the group's global advertising campaign, but the marketing follow-up had been inadequate.

However, Mr Staiano said he was confident that steps being taken would solve the problem in time for the launch.

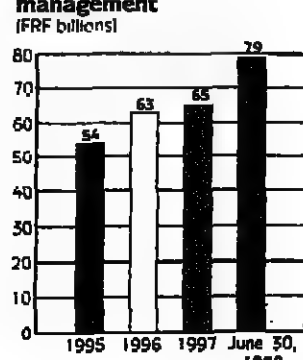
The failure to start the service this month meant that Iridium could not access part of its \$1bn bank facility. However, this would be triggered once the service was launched and Mr Staiano said funding would not be a problem in the meantime. A further \$1.7bn of funding was required for next year.

He remained confident that Iridium would be cash flow positive by the end of 1998.

CPR

BANQUE D'INVESTISSEMENT ET DE GESTION

Asset under management (FRF billions)



CPR REPORTS NET INCOME OF FRF 204 MILLION FOR THE FIRST HALF OF 1998, BEFORE PROVISIONS FOR GENERAL MARKET RISKS.

IN LIGHT OF THE CURRENT STATE OF FINANCIAL MARKETS, THE BOARD VOTED A PROVISION FOR GENERAL MARKET RISKS IN THE AMOUNT OF FRF 150 MILLION, WHICH REDUCES NET INCOME TO FRF 54 MILLION.

FRF millions	1997	June 30, 1997	June 30, 1998	1st half 98/1st half 97
Net banking income	2,192.1	1,157.1	1,189.8	+ 2.6%
Operating expenses	1,593.7	778.9	797.4	+ 2.4%
Gross operating income	598.4	378.2	392.4	+ 3.7%
Net income before provision for general market risks	325.2	186.3	204.0	+ 9.5%
Provision for general market risks			(150.0)	
Net income	325.2	186.3	54.0	

CPR reports net banking income of FRF 1,189.8 million as of June 30, 1998, representing an increase of 2.6% over the first half of 1997 and of 8.6% over 1997 on a yearly basis. Operating expenses were up 2.4% from the first half of 1997, though stable in comparison with the previous year. The operating ratio stood at 67.0%. Gross operating income increased by 3.7% from the first half of 1997 and by 31.2% on a yearly basis.

## Proprietary trading

Arbitrage operations in equity, derivative and private-sector bond markets produced satisfactory results. In the first half, the financial crisis in Asia did not have an adverse effect on income. Nonetheless, the aggravation of the crisis since the beginning of the second half, especially in Russia, led the Board to vote a non-deductible provision for general market risks in the amount of FRF 150 million. Before the devaluation of the ruble, the group's Russian commitments totaled FRF 280 million.

## Asset management

There was strong growth in assets under management which rose to FRF 79.1 billion. Net banking income increased significantly, in part due to growth in order-taking activities for private investors. CPR continued to invest in computer technology and to bolster the work force.

## Brokerage

Brokerage activities reported contrasting results. Low trading volume in interest rate markets adversely affected business in government securities and money market brokerage. On the other hand, activities in equity and derivative markets were satisfactory, as were operations in primary interest rate and equity markets.

## Outlook

Since the beginning of the second half, the outlook is positive for net banking income, asset management and brokerage activities. Beyond 1998, CPR's financial base and growth potential in its three businesses remain well anchored.

## INVESTOR RELATIONS

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**Halifax Plc**  
US\$500,000,000  
Floating rate notes  
September 1999

Notable in history given that the notes will bear interest at 5.59375% per annum from 10 September 1998 to 10 December 1998. Interest payable on 10 December 1998 will amount to US\$14.14 per US\$1,000 note, US\$141.40 per US\$10,000 note and US\$1,413.96 per US\$100,000 note.

Global Agency and Trust Services, Citibank, N.A., London  
10 September 1998

**CITIBANK**

**CREDIT LYONNAIS**  
US\$100,000,000  
Floating rate notes 2003

The notes will bear interest at 5.28125% per annum from the period 10 September 1998 to 10 March 1999. Interest payable on 10 March 1999 will amount to US\$132.77 per US\$1,000 note and US\$1,327.77 per US\$10,000 note.

Global Agency and Trust Services, Citibank, N.A., London  
10 September 1998

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**ANZ**  
ANZ Banking Group (New Zealand) Limited  
(Incorporated with limited liability in New Zealand)

**U.S. \$125,000,000**  
Subordinated Floating Rate Notes due 2005  
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Australia and New Zealand Banking Group Limited  
A.C.N. 003 357 522  
(Incorporated with limited liability in the State of Victoria, Australia)

NOTICE IS HEREBY GIVEN that for the Interest Period 10th September, 1998 to 10th December, 1998 the Notes will carry a Rate of Interest of 6.04375% per cent per annum with an Amount of Interest of U.S. \$152.77 per U.S. \$10,000 Note and U.S. \$1,527.73 per U.S. \$100,000 Note. The relevant Interest Payment Date will be 10th December, 1998.

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ENGINEERING GROUP PLANS TO TRANSFER STOCK MARKET LISTING FROM LONDON TO NEW YORK

## LucasVarity to move across the Atlantic

By Andrew Edgecliffe-Johnson

LucasVarity, the automotive components group, is planning to transfer its stock market listing from London to New York in the hope that US investors will allow it to make larger acquisitions than UK shareholders.

Victor Rice, chief executive, said the move across the Atlantic, which is thought to be unprecedented for a FTSE 100 company, may even allow the group,

capitalised at about £3bn (\$4.95bn) to contemplate acquisitions of companies larger than itself. He also unveiled plans to buy back up to 20 per cent of its shares, at a likely cost of almost £600m.

Mr Rice said the listing change would let LucasVarity compete on equal terms with US rivals, which have geared up to fund acquisitions in the rapidly consolidating automotive industry. Some UK analysts

expressed concern that most UK shareholders would be unable or unwilling to hold US shares, putting pressure on LucasVarity's share price. Robert Speed of Henderson Crosthwaite said such pressure may leave the group vulnerable to a bid.

UK and US holders each own 47 per cent of the company, which has underperformed the market since the 1996 merger of Lucas Industries of the UK and Varity Corporation of the US.

Mark Little, an analyst with BT Alex Brown, said UK shareholders would feel "badly let down" by yesterday's news. "If you were a Lucas Industries shareholder, you have effectively given your company to [Varity Corporation] and got all premium for it."

LucasVarity, which was advised by Morgan Stanley and Lazard Brothers, hopes to limit the selling pressure by issuing a London-listed security which could be

exchanged for US shares over the next 18 months. Shareholders, who will vote on the move on November 6, will be offered one new LucasVarity Corporation share for every 10 LucasVarity plc shares. The new group will retain only a secondary listing in London.

Two US shareholders holding 6 per cent of the stock - Neuberger & Berman and Franklin Resources - came out in support of the change. One large UK shareholder

backed the move, but said: "I am disappointed they feel that UK shareholders would not have accepted the need for higher gearing."

Mr Rice said rivals such as Federal-Mogul, TRW, and Dana Corporation also benefited from a lower cost of capital than LucasVarity. He added that US automotive suppliers were typically comfortable with interest cover of just 5-10 times, compared with LucasVarity's cover of 12.5 times.

## COMMENT

### LucasVarity

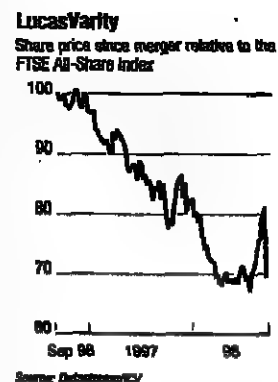
So shareholders are not the only ones who can vote with their feet. But in an era of global capital flows the justification for moving domicile back to Buffalo looks thin to say the least. Unhappy with whimsical shareholders in a London-listed LucasVarity, Victor Rice hopes for a more macho New York crowd. True, US investors are more accustomed to higher leverage, lower dividend yields and share repurchases as a means to lower companies' cost of capital. But with net cash, LucasVarity has hardly been stretching UK tolerance of gearing. There is plenty of room for a more efficient capital structure without needing to cross the Atlantic to achieve it.

The notion that proximity to its US peers in the automotive supply sector will suddenly mean it can compete more effectively for investment and acquisitions seems equally flawed. European companies such as Valeo enjoy higher ratings than their US counterparts and LucasVarity a similar one. Furthermore, with 47 per cent US-based shareholder register, LucasVarity is hardly failing to attract international capital. As for gaining an attractive acquisition currency, surely DaimlerChrysler and BP Amoco show ADR programmes do the job pretty effectively. For old Lucas shareholders who sold out cheaply in the merger, watched the new shares underperform by 30 per cent and are now effectively being asked to sell out completely, this is a sorry end indeed.

## Private finance initiative

Companies involved in the private finance initiative must hope the government will not go cold on these projects just because it has to account for them properly. Private involvement should improve efficiency and value for money, making the transfer of work from the public sector desirable whatever the accounting methodology. Of course, the consortia taking on these projects will need to price the risk properly. And if the government wants to transfer more of it to them, that element of the contract price will go up.

If the government ends up keeping more assets, this could increase the equity needs - and hence the cost of capital - of the special purpose vehicles set up for individual projects. This may hasten the formation of more permanent consortia, eventually destined for the stock market.



## Coats Viyella puts plan for demerger on hold

By Michael Peel

Coats Viyella, the textiles and precision engineering group, yesterday postponed plans to demerge its Viyella clothing and home textiles businesses and revealed that it narrowly missed falling into loss in the first half of this year.

The group confirmed its plan to demerge its precision engineering business in the second half of next year and said it was making progress in its attempts to improve operating performance.

Last December the group warned that profits would suffer an unexpectedly sharp fall in 1997 and said that it aimed to split into Coats and Viyella by the middle of next year. Coats was to comprise the precision engineering division and the thread and Indian operations, while

Viyella would take in clothing and home textiles.

Michael Ost, chief executive, said the decision to postpone the demerger reflected concerns about the potential effects on the share price of Viyella of negative market sentiment towards the textile and retail sectors. "This is not a change of strategy or a change of principle, purely one of timing. We want to postpone it until market conditions are slightly more favourable."

Analysts queried the group's decision. They said the logic underpinning the demerger was sound, and had not changed since Coats unveiled the plan. "It's very disappointing and the market hasn't taken very favourably to it," said one.

"Ninety-five per cent of the share price fall will be due to the demerger post-

ponement rather than the figures."

Pre-tax profits for the six months to June 30 fell from \$41.5m to \$1.6m (\$2.6m). The 1998 figure included re-organisation costs of \$16.6m, a \$15.3m charge relating to the sale or termination of operations at Counterpart, a supplier to Marks and Spencer, and a \$12m charge relating to a previous goodwill write off.

Operating profits on continuing operations fell from \$68.5m to \$49.1m, reflecting a decline in five of the group's six businesses. The group said it had been hit by an "uncertain trading environment", and had been particularly affected by the strength of sterling and subdued UK retail demand.

Mr Ost said it was hard to say how much the company was at fault for its problems.

## IT growth lifts Logica

By Christopher Price

Buoyant demand for information technology products and services across Europe helped Logica, the UK computer software company, lift annual pre-tax profits 49 per cent to \$41.8m (\$69m).

Revenues rose 40 per cent to \$473m, fuelled by strong growth from the telecommunications and financial services markets. The shares rose 9 per cent to \$18.225.

Logica also increased its cash pile six-fold to \$54m. Martin Read, chief executive, said this would help the company continue its active acquisition policy.

Since the June 30 year-end, Logica has acquired two IT companies, a Belgian services group and an Indian company specialising in banking software. Mr Read said the US and Germany were two other areas being eyed for expansion.

Preparations for the single



Andrew Given, finance director, left, and Martin Read

European currency stimulated an increased amount of business, particularly from the banking and retail sectors. "Everyone has got excited by the Year 2000

problem, but Emu will be enormous in comparison," said Mr Read.

Revenues from the telecommunications market rose 39 per cent to \$71m.

## Norwich Union in Australian move

By Russell Baker in Sydney and Christopher Brown-Humes in London

Norwich Union yesterday moved to underline its commitment to the Australian market by acquiring Portfolio Partners, a Melbourne-based fund manager.

Terms of the deal, which will create one of Australia's

top 10 fund management groups, were not disclosed but it is estimated to be worth about A\$125m (\$77m).

Portfolio has A\$5.2bn of funds under management, giving the combined group funds of more than A\$11bn. Norwich is under pressure to bolster its position in the highly-competitive Australian market in line with its

commitment to remain there, despite the recent withdrawal of UK rivals Prudential and Legal & General.

Richard Harvey, Norwich Union chief executive, said Portfolio had "an outstanding performance record in equity and balanced funds management, which complements our existing strengths in Australia". He said the

acquisition would support the group's efforts "to secure a leading position in the attractive Australian long-term savings and pensions markets".

Portfolio Partners was established in 1994 by David Slack and Keith Ince. The two will be joint managing directors of the merged business.

## Thistle to return £185m to holders

By Scheherazade Denham

Thistle Hotels, in which Brierley Investments of New Zealand holds a 46 per cent stake, is to return £185m (\$305m) to shareholders, a month after plans to sell the UK's second largest hotels company fell through.

It also announced a fall in pre-tax profits from £38.1m

to £17.3m. Exceptionals included a £31m provision on the sale last week of 30 hotels for £65m to Panco, a subsidiary of Lehman Brothers, the US investment bank.

Operating profits for the 28 weeks to July 12 of £27.1m compare with £25m last time. Operating profit margins increased by 9 per cent.

The disposal will help fund the return by November of the first tranche of £90m to shareholders. The balance of £95m, to be returned in April, will be financed via increased borrowings.

Occupancy rates in London fell from 75.4 to 73.8 per cent as more tourists from continental Europe were deterred by the strength of

the pound and fewer travellers from Asia.

Rodney Price, chairman, said the general economic outlook was less favourable than six months ago but there was further opportunity to improve the group's performance.

Net debt of £265m (£274m) gives gearing of 28 per cent. The shares rose 3p to 157½p.

# BUNGE



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## COMPANIES &amp; FINANCE: UK

# Opposition to Man Utd bid increases

By Susanna Voyle, Cathy Newman and David Wighton in London and Sheila Jones in Manchester

Serious opposition mounted yesterday to the £232.4m (£1.03bn) bid for Manchester United football club by BSkyB, the satellite broadcaster controlled by Rupert Murdoch's News Corporation.

PDFM, the club's largest institutional shareholder, voiced concern about the 240p-a-share deal and Lord Hollick, who advises the government on competition matters, said it raised serious issues.

Meanwhile, it became clear that the Manchester United board has been split over the deal, with serious doubts about the wisdom of accepting an offer from BSkyB pushing the negotiations to the eleventh hour on Tuesday night.

Last night, fans angry because they felt their club had been sold out to Mr Murdoch, protested outside the ground.

While BSkyB and United both spent yesterday insisting that Mr Murdoch had had nothing to do with the negotiations, it emerged last night that he had been involved. Mr Murdoch, in London for the funeral of

low media baron Lord Rothemere, called United chairman Sir Roland Smith to break a "small deadlock". United shareholders have been offered either cash or cash and shares combined. The combined deal offers 120p cash and 0.2537 of a BSkyB share for each United share they hold. The offer is a premium of 51 per cent to the closing price of United shares at the end of last week, just before news of the deal became public.

PDFM, which owns just over 4 per cent of United, said it was "slightly disappointed" about the deal. "We felt [Manchester United] had a very strong future if it remained independent," an executive said, adding that the deal was "slightly disappointing" about the deal.

Lord Hollick, chief executive of media conglomerate United News & Media, a rival to BSkyB, said the deal - on which he will not directly advise - was an example of vertical integration. "You have in Sky the monopoly supplier of pay TV in the UK," he said. "Manchester United is the most prized asset in the whole [television] rights debate."

The Office of Fair Trading yesterday launched its investigation, the results of which should be delivered within two months.

## Murdoch teams up with value while reducing BSkyB's risk

Tony Jackson analyses the economic motive at the heart of the Manchester United deal in strictly financial terms. Rupert Murdoch's contentious purchase of Manchester United raises one obvious question. British Sky Broadcasting is paying 240p apiece for shares which last week were worth 160p. The difference is a little over £200m. What does Mr Murdoch get for his money?

For some of the deal's fans - and opponents - the answer that gives him an arm-lock on television rights for the world's most profitable football club. But for the time being, BSkyB has that anyway. It has exclusive rights to live broadcasting of UK Premier League games until 2001. Why then is Mr Murdoch paying £200m for something he already owns?

The answer comes down to a single word: insurance. The economics of football are of central importance to the pay-TV industry. They would be opposed "tooth and nail".

"The phones have not stopped ringing with fans offering to help the campaign against this bid," said Mr Walsh, whose organisation has 2,500 members and claims to speak for many more. Rupert Murdoch, he said, knew "the price of every-

thing and the value of nothing. This club is not to be sold like some second-hand jag by Martin Edwards and his cohorts on the board."

Small shareholders, who collectively own about 30 per cent of United, yesterday stepped up their campaign against the bid. Richard Lander of Shareholders United Against Murdoch, said the group was trying to contact as many small investors as possible to oppose the bid. "This is a very bad day for football."

The group wants the bid referred to the Monopolies and Mergers Commission. "It would give BSkyB a terrible amount of influence over football and over United," added Mr Lander. "They will



Martin Edwards, chief executive of Manchester United

## Fans fear the final curtain at 'Theatre of Dreams'

By Sheila Jones

Manchester United's fans are not happy. They daubed slogans on United posters at the Old Trafford ground yesterday protesting against a BSkyB takeover of United.

Andy Walsh, leader of the Independent Manchester United Supporters Association, promised that the bid

would be opposed "tooth and nail".

"The phones have not stopped ringing with fans offering to help the campaign against this bid," said Mr Walsh, whose organisation has 2,500 members and claims to speak for many more. Rupert Murdoch, he said, knew "the price of every-

thing and the value of nothing. This club is not to be sold like some second-hand jag by Martin Edwards and his cohorts on the board."

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The group wants the bid referred to the Monopolies and Mergers Commission. "It would give BSkyB a terrible amount of influence over football and over United," added Mr Lander. "They will

pick the players most likely to boost the TV ratings rather than the players best for the team."

The Manchester Evening News ran headlines saying "the dream" was over. The day the deal was finalised would be "the day that football died at Old Trafford... the day when the Theatre of Dreams ceases to exist". The newspaper ran a phone-in poll which it said showed that 96 per cent of fans were against the deal.

Even Manchester City supporter Colin Johnston, 28, set aside his natural rivalry. "I think it's absolutely wrong," he said. "Martin Edwards hasn't asked the supporters what they think. He doesn't care about them."

## ABP puts focus on terminals

By Charles Batchelor

Associated British Ports, the UK's largest ports operator, hopes to take over running a second terminal later this year as part of its move away from being simply a port "landlord". Sir Keith Stuart, chairman, said yesterday.

The company took on its first terminal in May when it bought Exeter Shipping Services, which operates a roll-on, roll-off terminal at

Immingham. A total of 20 terminals at ABP's ports, currently operated by shipping companies, trading groups or manufacturers such as British Steel, are potential targets.

A total of 20 terminals at ABP's ports, currently operated by shipping companies, trading groups or manufacturers such as British Steel, are potential targets.

The company took on its first terminal operation in May following its acquisition

of Exeter Shipping Services, which operates a roll-on terminal at Immingham, Lincolnshire.

Overseas, ABP plans to make American Port Services, the US car terminals group that it acquired in June, the main focus of expansion, though it is also taking a cautious look at some of the ports being privatised around the world.

ABP is also looking to establish car terminals in Brazil and Chile.

In the first half of 1998 ABP reported an 11 per cent increase in pre-tax profits to £67m on turnover which rose by 33 per cent to £271.3m.

ABP is ahead of schedule in its disposal of non port-related property with £77m achieved and the remaining £43m expected to be completed by the end of the year.

It spent £42m buying back its shares and will continue to make purchases towards its £200m target.

### RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividends Corresponding dividend	Total for year	Total last year
Albion & Sons	Yr to June 30	7.2 (5.58)	1.99 (1.45)	3.88 (2.83)	0.75 Jan 31/02	0.5	1	0.5
Albright & Wilson	6 mths to Jun 30	419 (384)	27.7 (25.8)	6.2 (5.8)	1.8 (1.8)	2.35	Nov 2	7.15
Asseco	6 mths to Jun 30	180 (143)	87 (61.5)	11.2 (10.3)	4.6 Nov 2	4	9	9
Becor	Yr to Jun 30	531 (536)	70.2 (62.2)	20.06 (18.82)	5 Nov 16	4.5	7.3	6.8
Bentley	6 mths to Jun 30	65.5 (42.4)	4.19 (2.55)	14.3 (8.2)	3.3 Nov 2	3	7.3	7.3
British Plastics	6 mths to Jun 30	47.2 (42)	2.56 (2.17)	5.78 (5.78)	1.85 Nov 20	1.85	-	5.1
Cardron	6 mths to Jun 30	788 (840)	72.9 (74)	8.1 (7.2)	2.5 Nov 9	2.5	-	8.8
City Centre	6 mths to Jun 30	57 (74.8)	4.08 (4.38)	2.58 (2.58)	0.75 Oct 14	0.45	2.1	2.1
Clarkson (Heron)	6 mths to Jun 30	14.4 (16.8)	1.2 (1.8)	3.5 (4.7)	1.5 Oct 16	1.5	-	4
Costa Voyages	6 mths to Jun 30	1,041 (1,134)	1.84 (1.54)	4.3 (3.4)	1.5 Dec 23	3.7	-	4.7
Devere	6 mths to Jun 30	131 (141)	23.7 (25.8)	9.6 (10.3)	3.3 Oct 23	3.1	-	9.5
Dunlop & Son	Yr to Jun 30	92 (84.2)	14.5 (12.7)	28.25 (25.25)	7.05 Nov 19	6.5	11.15	9.5
Easton	6 mths to Jun 30	40.8 (22.1)	5.04 (5)	23.87 (13.84)	3.6 Oct 9	2.1	2.85	2.9
Easton Holdings	6 mths to Jun 30	12.4 (17.5)	0.593 (0.83)	0.21 (0.48)	0.2 Dec 18	0.2	-	0.2
F&D Holdings	6 mths to Jun 30	82.1 (75)	6.39 (7.77)	20.6 (15.31)	4.45 Oct 17	3.7525	-	8.7525
Goswami	Yr to Jun 30	87.1 (47.8)	5.23 (5.08)	25.81 (24.9)	5 Dec 4	4.8	7.8	7
Gwynedd	6 mths to Jun 30	532 (532)	25.54 (43.3)	5.2 (12.2)	4.4 Dec 2	4.4	-	13.2
Heath	6 mths to Jun 30	54 (18.8)	1.89 (1.89)	5.53 (5.79)	2.2 Oct 9	2	-	5.13
Heath Holdings	6 mths to Jun 30	99.85 (70.42)	0.533 (0.527)	0.41 (0.7)	1.3 Oct 30	1.1	-	3.3
Inter-Alliance	6 mths to Jun 30	2.11 (0.465)	0.468 (0.019)	11.08 (0.64)	-	-	-	-
NS Broomfield	Yr to May 31	- (0.011)	1.02 (0.847)	- (-)	-	-	-	-
Logan	Yr to Jun 30	473 (336)	41.8 (28.1)	42.31 (30.3)	7.25 Nov 5	5.8	11.75	9.4
London Portland	6 mths to Jun 30	563 (1,192)	257.1 (21.22)	3.48 (15.22)	8 Oct 28	8	-	12.3
Luxcel	6 mths to Jun 30	2,235 (2,302)	288.9 (16.9)	7.5 (6)	2.5 Nov 30	2.5	-	4.5
Payday Therapeutics	6 mths to Jun 30	0.2 (2.5)	4.27 (0.7)	11.8 (7.6)	-	-	-	-
PGI Int'l	Yr to Jun 30	3,280 (4,148)	228.9 (71.8)	40.2 (30.9)	0.1 Nov 6	6	14.5	14.5
Premier Oil	6 mths to Jun 30	61.7 (87.7)	13.3 (36.3)	0.88 (2.55)	0.1 Nov 6	0.1	-	0.005
Prime People	6 mths to Jun 30	2.15 (1.85)	0.217 (0.17)	0.48 (0.47)	-	-	-	-
PSU	6 mths to Jun 30	22.6 (74)	6.2 (3.9)	17.8 (11.3)	3.5 Oct 19	2.4	-	8.4
Quintessential	6 mths to Jun 30	8.64 (4.37)	1 (0.85)	6.83 (3.9)	1.1 Oct 19	1.1	-	3
Rugby	6 mths to Jun 30	611 (533)	35.2 (23.7)	3.91 (2.5)	1.75 Nov 20	1.85	-	1.85
Russell (Alex)	6 mths to Jun 30	22.2 (21.3)	1.64 (1.31)	3.89 (2.77)	1.3 Nov 30	1.2	-	4
SEET	6 mths to Jun 30	16.5 (3.8)	0.803 (0.07)	2.75 (1.02)	-	-	-	-
SBS	6 mths to Jun 30	135 (131)	8.8 (8.8)	1 (6)	2.0 Nov 6	-	-	-
Sigbee	6 mths to Aug 1	399 (371)	12.14 (1.38)	0.51 (2.8)	-	-	-	-
Star Plus	6 mths to Jun 30	9.01 (6.92)	1.81 (1.38)	5.91 (5.1)	5.13 Oct 30	5.13	-	11.288
Talpa	6 mths to Jun 30	25.4 (28.7)	1.2 (2.04)	2.46 (3.57)	0.1 Nov 6	0.1	-	0.1
Tempos	6 mths to Jun 30	596.9 (443.9)	6.39 (3.48)	4.87 (3.82)	0.73 Oct 5	0.64	-	2.72
Thiele Hotels	23 mths to June 12	188.9 (180.2)	17.34 (38.1)	1.43 (5.97)	1.6 Nov 19	1.4	-	4.2
United News & Media	6 mths to Jun 30	1,153 (1,084)	370.9 (110.7)	25.11 (24.3)	11 Dec 2	11	-	24
Investment Trusts								
Franklin Temple	Yr to July 31	298.4 (203.1)	1.55 (1.85)	6.74 (7.16)	2.05 Nov 5	2	7.6	7.25
Johnson Fry Epsom	Yr to July 31	286.15 (148.48)	0.730 (0.489)	6.85 (4.89)	3.5 Oct 15	3.3	5.9	5.4
Quotient VGT	6 mths to July 31	108.4 (107.7)	0.214 (0.280)	1.03 (1.20)	0.8 Oct 1	0.76	-	2

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. After exceptional charge. After exceptional credit. 10m increased capital. Allm stock. \*On reduced capital. Adjusted for scrip issue. British currency. □ No later than. \*Comparative restated. \*Foreign Income Dividend. \*Final paid as foreign income dividend. \*Comparative pro forma. \*Total written premiums.

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## MONEY MARKET REFERENCE RATES

## Brussels prepares for battle with London

Europe's challenge to the benchmark Libor rate could deprive the City of an important financial brand image, writes Edward Luce

Battle lines are being drawn for a fierce tussle between London and continental banks next January in the hitherto dry and uncontroversial world of money market reference rates.

Libor - the London Interbank Offered Rate - has for years been the undisputed benchmark for international transactions in most of the world's currencies. Of the important currencies, only the French franc and - in its domestic market - the Japanese yen could claim to have successful benchmarks that are calculated in their domestic capitals (Pibor and Tibor).

All this could be about to change. Europe's leading continental banks hope to take advantage of the UK's decision to opt out of the first wave of European monetary union to sponsor a rival benchmark rate of their own. The rate, which will be known as Euribor, will be launched on 1 January. At the same time, Libor's euro rate will be converted into euros.

Given the political capital that has been invested in the success of Euribor (a number of European central banks have been campaigning behind the scenes for the adoption of the bench-

mark), the battle is an important one. Is Euribor likely to topple Libor? And if so, would the adoption of Euribor harm London's position as the leading financial centre in Europe?

Market players appear to be split on which rate is likely to succeed. Broadly speaking, Libor, which is determined on a daily basis by the British Bankers' Association, has incumbency on its side. As the reference rate for most floating rate dollar and D-Mark transactions (and a host of less important currencies) the London rate has little to prove.

The rate is based on daily quotes from 16 international banks, with the highest and lowest four being eliminated, and is almost universally accepted. No one disputes Libor's accuracy. No other financial centre has attempted to compete with Libor except on its domestic currency.

Moreover, London is clearly the centre of offshore international finance, with the world's largest money and foreign exchange markets. This makes London the most liquid - and therefore the most price sensitive - financial centre in Europe and probably the world. Emu is unlikely to change this. Indeed,

judging by the recent hiring spree of US investment banks in London, Emu could even enhance London's primacy vis-à-vis Frankfurt and Paris.

Defenders of Libor also point to its relative simplicity. Unlike Euribor, which will be calculated from a panel of 57 (mostly European, banks) the BBA is under no political pressure to choose or omit certain banks. It simply chooses the 16 most creditworthy and internationally liquid banks in the relevant currency.

Euribor, on the other hand, will be based partly on a quota system, which means banks from every Emu member state must be included. Some believe this could lead to confusion, with banks based as far apart as Lisbon and Helsinki phoning in their daily quotes. Others say it will lower the average credit rating of the panel, thus producing a marginally higher reference rate than its competitor in London. Borrowers would then naturally choose to price offerings off the cheaper rate calculated in London.

Officials at the European Banking Federation in Brussels (the main sponsor of Euribor) reject these suggestions and point out that the highest and lowest 15 per cent of quotes will be eliminated, thus reducing the scope for volatility. Moreover, one of the effects of Emu will be to create a genuine cross-border

capital market in Europe that will make physical distance irrelevant. They also point out that a recent survey by InterCapital Data showed 70 per cent of European banks planned to adopt Euribor rather than Libor as their main reference rate.

Is it possible the two rates could co-exist, one for the onshore market the other for the offshore market? Few believe this is a long-term prospect. Given the possibility that the two rates could occasionally diverge, banks and corporations will be reluctant to duplicate back-office documentation by basing their transactions on both reference rates.

"With the year 2000 problem and the conversion to the euro, our technical staff have enough worries to start worrying about matching up alternative money market rates," said Edward Condon, head of derivatives at CSFB.

Bob Blower, banking markets manager at Reuters, predicts the market will quickly opt for one rate or the other. "It is too much of a back-office nightmare to keep both rates alive simultaneously," he said. "The tendency will be to opt for one rate and this will happen more quickly than people expect."

Given the pressure on European banks to adopt Euribor (not least the 57 that make up the panel) many are betting that Euribor will eventually predominate.

"Nothing has been put in writing but we have been told [by government officials] that we will not be popular if we continue to use Libor," said an official at a German bank. "European governments are setting great store in the prestige of Euribor."

Assuming - a big assumption - Euribor prevails, London would be affected on at least two fronts. First, it would give a competitive edge to the Deutsche Terminborse, Frankfurt's derivatives exchange, in its rivalry with Liffe, the London International Financial Futures and Options Exchange. Liffe plans to base its money market euro contracts on Libor. The DTB has somewhat nervously hedged its bets and plans to launch contracts based on both Euribor and Libor. Nevertheless, Liffe would be the clear loser if Libor was rejected as a benchmark.

Second, the loss of Libor would deprive London of an important brand image, at least in the euro-denominated markets. Whether this would have a tangible impact on the physical presence of money and capital market operations in London is unclear. Most believe the broader effects would be negligible. However, brand images are important. And if there was a tangible impact, it would almost certainly detract from London's competitive position.

## How to deal with currency conversions



A manager's guide to the euro

I want to prepare my company to handle currency conversions involving the euro when it comes into existence on January 1. This sounds easy, is it?

Unfortunately not. In its first few years of existence, the euro will be unlike any other currency, making conversion calculations complicated.

What's the problem? Between 1999 and the first half of 2002, it will co-exist with the national denominations of the states joining monetary union. The European Union has decreed that during this period the system will operate under the rule of "no compulsion, no prohibition". This means that everyone paying for something in the eurozone can do so either in euros or national denominations.

Why is that such a big deal? The euro and the national currencies will have a fixed conversion rate. Surely I can just punch this number into my computer and apply it to every transaction?

Wrong again. European regulations specify an exact and complicated way of converting book entries, payments, etc - and you must adhere to the rules.

So what are they? First, you must use the official euro conversion rates: that is, the rates between the euro and national denominations, which will not be known until the end of this year. You will have to apply these conversion rates precisely, to six relevant digits. You should be aware that some computer software, including some older versions of popular spreadsheet programs, may not be capable of handling this type of calculation. You should follow the mathematical rounding rule that a value of 0.005 should be rounded upwards to 0.01. And you should under no circumstances use bilateral conversion rates - for example, converting francs directly into D-Marks.

Why not? It would make life a lot easier if I did not have to go through the euro each time.

It would, but the accumulated rounding errors would become significant if you took this approach. A bilateral rate, of course, is only the product of two euro rates. But the product of two six-digit figures has almost always more than six digits, no matter whether the figures have no decimal points or five. So you would lose precision if you opted for bilateral rates.

So how do I get from francs to D-Marks? Through a principle called triangulation. This means you convert francs into euros, and euros into D-Marks, and each time you apply the six-digit rule. This means that every conversion

between two national denominations involves two calculations.

How do I convert long lists of items from a national denomination into euros? Do I translate each entry and then add them together, or do I add them up first and then convert?

The rule is: add first, and then translate sub-totals and/or totals. The idea is to minimise rounding differences.

Surely these rounding differences don't matter? They are just pennings, centimes and pennies.

They do. Say you invoice a customer in euros, and the customer pays in francs.

There is a good chance that if you reconvert the francs back into euros, you end up with a small rounding difference between the payments received and the original invoice total. Your computer would not normally match the two items unless they were identical. This means that you have to set tolerance levels for your computer systems, and install write-off policies to deal with losses due to rounding differences, even if the losses are small.

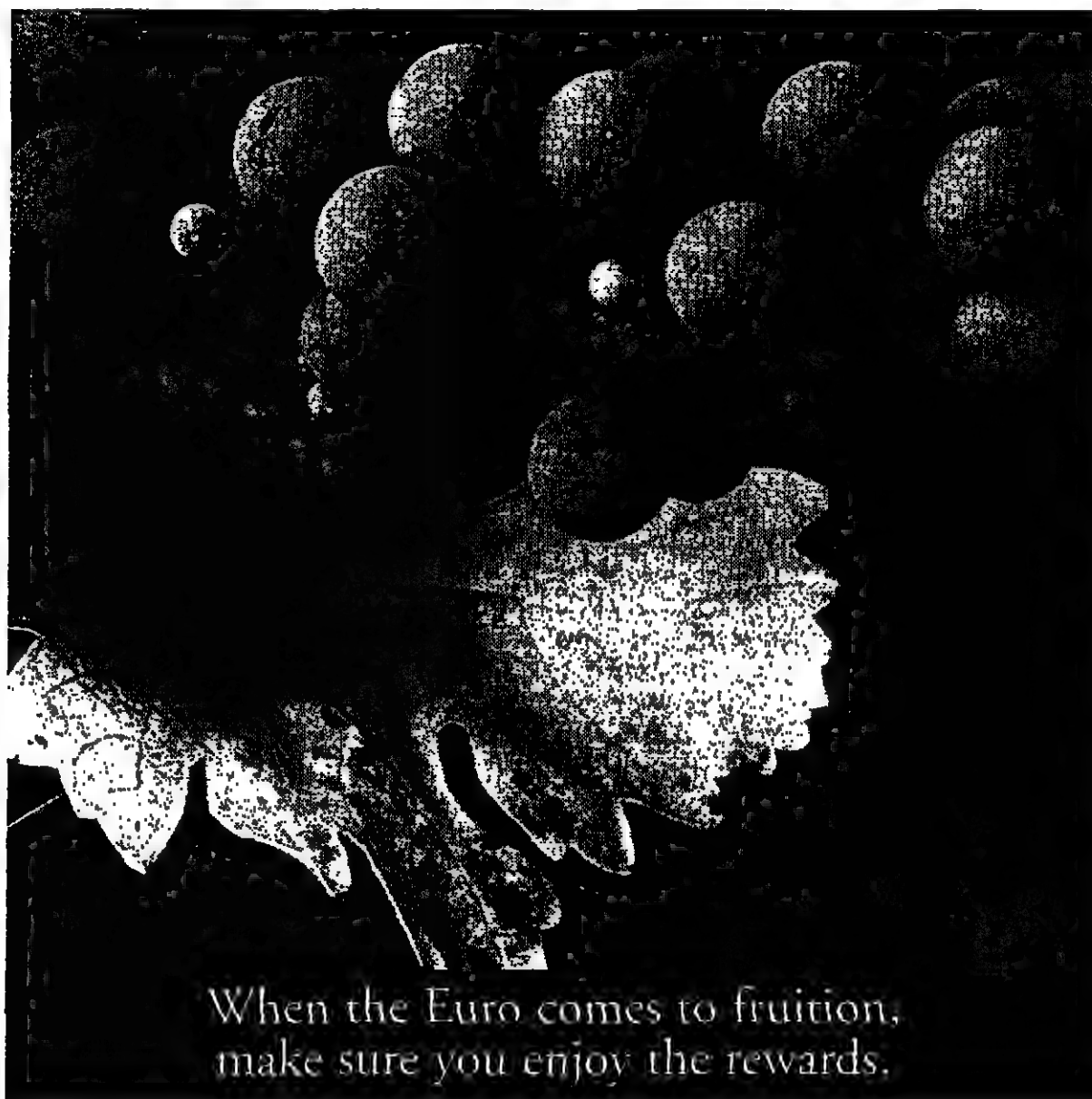
So what action should I be taking now?

That depends on many things, such as whether you are based or have subsidiaries inside the eurozone, the extent to which you trade with the eurozone, and what kind of business you are in. The level of preparedness is highest for banks, while small retailers need to worry less because euro banknotes and coins will not arrive until 2002. In most cases, you should have the capability to handle payments by your customers in either euros or national denominations. You will probably have to change your IT systems. If you are based outside the eurozone, and you operate solely in your domestic currencies and/or US dollars, it may not matter.

I am based in the eurozone. How do I change my systems?

There are two broad strategies: a Big Bang, under which companies change their entire booking system to euros on a given date, in some cases January 1, 1999. This is considered the cheapest approach, but carries the risk of a systems failure. Many large continental companies have decided to opt for a Big Bang, but they have been preparing for many years. The alternative is a dual approach, in which the company maintains national currencies for all activities but sets up a "shadow" euro booking system. This is more expensive than the Big Bang, but less prone to a breakdown. Then there are mixtures of the two approaches that may offer a better combination of cost and risk, with some systems switched over immediately and others on dual-track.

Wolfgang Münchau



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## MANAGEMENT &amp; TECHNOLOGY

## TECHNOLOGY PACKAGING EQUIPMENT

## Boxing clever in a chocolate factory

A Swiss company may have the answer to the problems of sweet packing, says Peter Marsh

It sounds a laughably simple task. For 25 years the world's confectionery industry has tried to devise machines that can improve on humans' ability to fill up boxes of chocolates. Until recently, it has failed miserably.

But in the past year a breakthrough by SIG, a leading Swiss packaging equipment manufacturer, has given hope to those attempting to oust people from the production lines of the world's chocolate industry.

A series of systems devised by SIG is being put through their paces in about five unnamed chocolate factories around the world. It contains an esoteric mixture of complex control software, some of the world's fastest robots and sophisticated image-analysis equipment.

The plants have to remain unidentified because the companies running them do not want competitors to know they have the new machinery.

The new machines, each costing up to \$1.5m (\$1.5m), promise to automate the job of filling chocolate boxes with different shapes and sizes of sweets, without losing the flexibility that humans bring to this process.

The key to a production line of this type is versatility. Typically, a confectionery company may need to put 10-15 different types of sweet in a range of sequences into a large number of different sized boxes being passed along a conveyor.

In the past, the only way to cope has been to employ an army of people to put the chocolates in the trays inside the boxes by hand.

But automation has been a holy grail for the industry, not only to reduce employment costs but to bring greater consistency in filling standards. In this way, chocolate companies hope to ensure consumers are never faced with an orange whirl in the space allocated for a hazelnut cluster.

During the filling process humans are also liable to damage the frail outer coatings of some chocolates with soft centres, a job robots may accomplish better.

A further pressure to introduce automation has been the bigger range of selection boxes offered by many confectionery companies, reflecting the proliferation of consumer outlets and differing tastes. The larger range of boxes has put still greater emphasis on the need for production flexibility.

In SIG's machines, which have been developed in the company's main packaging system plant near Schaffhausen, a single conveyor is used to channel a variety of plastic trays for different types of selection boxes.

At right angles to this main conveyor is a series of subsidiary

**Automation has been a holy grail for the industry**

conveyors, carrying chocolates of various shapes and sizes, to intercept the trays.

Up to 30 cameras sit above the conveyors track the chocolates' movements. Using high-speed image analysis software, they work out both the type of sweet (the cameras match the shapes and markings of the chocolates with "libraries" of stored programs) and also their positions.

This information is sent electronically from the cameras to between eight and 12 small robots. Using either mechanical grippers or suction devices, the robots pick up individual chocolates from their moving conveyor before depositing them in trays according to instructions fed into the system's control unit.

The robots can pick and place

one chocolate in half a second – a speed judged in the industry to be fairly close to the limits of what is technologically possible. This allows a large range of sweet to be placed, in whatever order the chocolate producer chooses, in an equally big range of trays, says Calvin Grieder, general manager at SIG's packaging systems division. One tray can be filled in as little as five seconds, depending on its size.

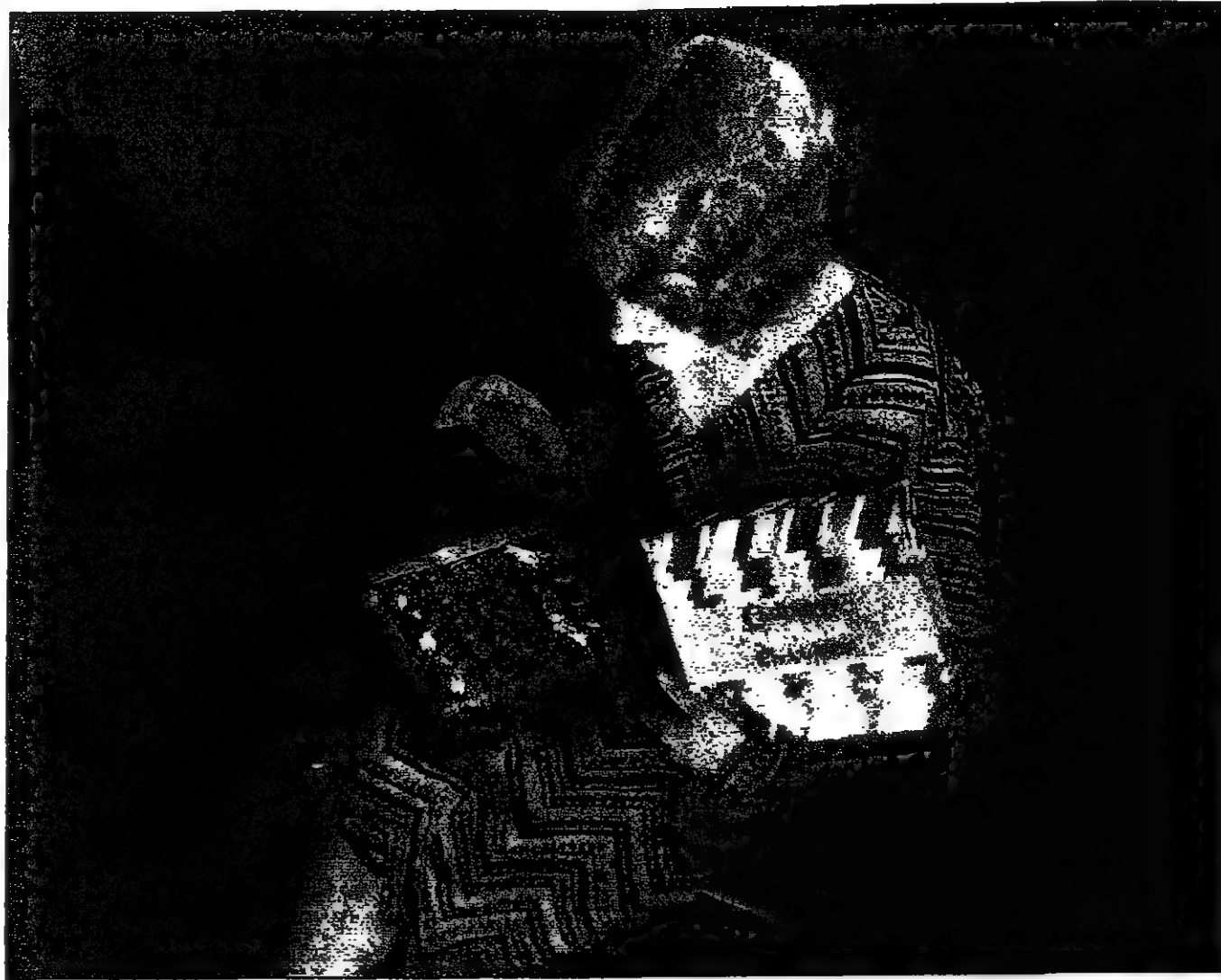
Variations in customers' orders – for instance from supermarkets which suddenly decide their shoppers are keener on raspberry truffles than lemon creams – can be catered for by the machinery just as easily as ordering a set of human workers to fill the selection boxes in a different way.

"We are bringing just-in-time automation to the chocolate factory," says Mr Grieder, whose company last year sold SFR411m-worth of packaging machines, mostly for chocolate or biscuit plants. Big customers include Cadbury-Schweppes and Lindt & Sprüngli, two of the world's large chocolate companies.

In another development designed to improve the flexibility and ease of use of the company's systems, the Internet is used to channel information between SIG's latest packaging machines and computers around the world.

In this way, for instance, SIG engineers in Switzerland can download programs from one of the company's packaging systems in the US to their own computers to check for possible faults. Alternatively, technicians working on a production machine can call up relevant technical data – for instance about the chemistry behind the creation of a specific chocolate recipe – from development laboratories on the other side of the world.

David Syz, SIG's chief executive, reckons the use of modern software and electronics in this way should be a strong selling point as the company attempts to push its newest range of chocolate machines further across the technological frontiers.



Edible sign of progress: companies can ensure that a space allocated to an orange whirl will never contain a hazelnut cluster

Hutton Getty

## DEMAND FOR VARIETY

## Cartons reflect pace of change

Anyone who has bothered to count the types of cardboard box in the local supermarket would quickly get to hundreds, if not thousands, writes Peter Marsh. The large variation is particularly noticeable at the displays selling selection boxes of chocolates.

This proliferation in packaging types spells headaches for Bobst, a Swiss company which is one of the world's biggest makers of machines to make cardboard boxes and cartons.

Because of the desire of food and other consumer products companies for greater range, Bobst has been forced to engineer its machines so that they are

much more capable than 10 years ago of being switched between different packaging types. The machines cost between SFR500,000 (\$329,000) and SFR10m, depending on sophistication.

In the 1980s, a Bobst machine was likely to have spent virtually all its working life being switched on for eight hours at a time to make "flat-pack" shapes for up to about 100,000 boxes, all of the same size and design. The boxes could be used for packing not only chocolate but anything else from cigarettes to shoes.

Today, however, the equivalent system will typically be turned off three or four times during a factory shift to switch to differ-

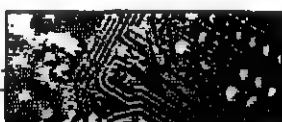
ent packaging types, to suit a variety of markets or products.

According to Andreas Koopman, Bobst's chief executive, whose company last year sold SFR1.38bn of packaging equipment, this has led to a greater need for machines whose scoring and cutting mechanisms can be altered easily, within as little as 20 minutes, to make production change-overs straightforward.

There is also a greater emphasis on electronics and software which helps make the machines more capable of being re-programmed to suit different requirements. Of Bobst's 500 development engineers (of whom about 340 are in Switzerland and

the rest elsewhere in Europe) about a third are software or electronics specialists.

Apart from making sure that its machines can be switched relatively simply, Bobst has also been forced to bring out a wider range of machines to fit in with customer requirements. Today the company makes more than 100 basic model types, roughly 20 per cent more than in the early 1990s. Each model type also is normally adapted to meet a particular need. "Only a few of the machines coming out of one of our factories during the course of a year are likely to be the same," says Mr Koopman.



TECHNOLOGY WORTH WATCHING

## Sweet success beckons for Israeli research into one-shot treatment for diabetes

When Yoram Karmon, an Israeli molecular biologist, set up Peptor in 1993 he believed the survival of his company depended on finding a niche. He decided to specialise, establishing a technology platform for the treatment of autoimmune diseases.

Besides looking at new treatment for pancreatic cancer and HIV, the virus that causes AIDS, Mr Karmon was determined to find a cure for diabetes, a disease affecting around 1m patients in the US alone, with 60,000 new cases being recorded each year.

Type 1 Diabetes, or insulin dependent diabetes mellitus (IDDM), is caused by the autoimmune dysfunction of the insulin-producing  $\beta$ -cells, making the body unable to absorb sugar and starch. If diabetes occurs before the age of 30, the medical

consensus is that life expectancy can be reduced by 15 years. Diabetic patients require a daily and highly regulated dose of insulin. But Mr Karmon is working on a treatment which would require a patient being insulated only once and then subject to periodic boosts, similar to a kind of vaccine treatment.

Peptor, with a particular emphasis on juvenile diabetes patients, treats diabetes with a drug designed to stop the immune system from attacking the pancreas. But instead of using a drug to suppress the function of the immune system in general – weakening in the process the immune system's ability to protect the body – Peptor's drug acts specifically on those cells of the immune system that are destroying

the insulin producing  $\beta$ -cells of the pancreas. In a joint development project with Israel's Weizmann Institute of Science and the Ares-Serone Group, a leading pharmaceutical company, Peptor has already conducted Phase I human clinical trials for a new diabetes drug, Phase II, involving 250 patients, is in progress.

So far, says Mr Karmon, the results from Phase I were encouraging with no allergic reaction, no inflammatory immune response and a high incidence of responses by cells. Phase III is the most crucial because the number of patients is greater and it is a double blind trial. This phase is about to begin and should be completed by the end of this decade.

Investors, so far, have rallied behind Peptor. Last



Peptor is aimed at juvenile diabetes

Science Picture Library

month, with little effort, Mr Karmon raised \$15m from domestic and European investors, in addition to raising more than \$30m in earlier private placements. The total, says Mr Karmon, will keep Peptor going until the end of 2000 – when Phase III trials will be complete. Peptor, Israel: tel 9728 940 1232, fax 9728 940 7737; e-mail peptor@netvision.net.il

Judy Dempsey

## IN BRIEF

## Laser probe separates polymers to aid recycling

One of the obstacles to recycling plastics is the difficulty of separating out different polymers before melting them down. If they become contaminated with another plastic they may have to be incinerated or thrown away.

Researchers at Purdue University in the US have developed a handheld probe that can determine the chemical composition of plastics. The device, which shines a laser beam at the plastic and collects the scattered light, can identify more than 100 pieces of plastic per second, or 500 tons a day.

Ford's car component operation helped finance the development of the device. The US Environmental Protection Agency also provided funding for the research.

The device was developed by a group of Purdue

University researchers and manufactured by SpectraCode, a company set up on Purdue's Industrial Research Park. In the UK, similar devices have been developed jointly by Ford and Southampton University. Purdue University: US, 785-464-0266; http://news.ums.purdue.edu/

## Helium could help lung diagnosis

Until recently, magnetic resonance imaging – an important diagnostic technique in medicine – could not be applied to the lungs. This is because they do not contain enough water to provide the protons (hydrogen nuclei) on which the technique depends.

But a team of European scientists have found a way round this problem, using a highly polarised form of helium that is breathed in by the patient. The lungs can then be visualised in three dimensions using sophisticated software.

allowing detailed studies of the working of the lungs and diseases such as cancer or tuberculosis. The technique has been developed to a point where it could soon become standard practice in hospitals, according to the researchers.

The technique, which built on an experiment originally conducted at the universities of Princeton and Stony Brook, was developed at the University of Mainz, Institute Laue-Langevin at Grenoble and the Ecole Normale Supérieure in Paris. Institut Laue-Langevin: France, tel 476207179; butner@ill.fr

## Mother's first milk to treat Alzheimer's

A UK biotechnology company, ReGen Therapeutics, is developing a potential treatment for Alzheimer's disease based on colostrum – the first milk produced by mammals after giving birth which offers certain immune properties,

writes William Macdonald.

The company has acquired the rights to colostrum, produced from colostrum, from the Polish Academy of Sciences where it has been developed for 20 years. Colostrum appears to work by a new type of immunoregulatory mechanism in treating Alzheimer's disease. Clinical trials on 65 patients over three-and-a-half years saw their condition stabilise and the social functions and short-term memory of some improved significantly. None of the trial patients suffered a serious adverse reaction to the therapy. The drug will be produced in commercial quantities from ewe's milk.

Marshall Robinson Roe: UK, tel (0)171 2532268; fax (0)171 2511939.

## Light-sensitive material found by chance

Photochromic materials – which change colour on exposure to light – are

usually too expensive to be used on a large scale.

But an inexpensive alternative has been discovered by chance by researchers at the US Department of Energy's Lawrence Berkeley National Laboratory and the University of California, Berkeley.

The material, developed as part of an investigation into rechargeable batteries, is made from layers of nickel hydroxide and titanium dioxide on glass, plastic or ceramics. It was found to become opaque with increasing levels of sunlight, making it suitable for energy-efficient windows.

Other possible applications of the material, which also responds to the application of a small voltage, include computer display panels, light meters and low-cost memory devices. The researchers have applied for a patent. Lawrence Berkeley National Laboratory: US, tel 510-486-4210; a\_chen@lbl.gov

Vanessa Houlder

## MANAGEMENT CONSOLIDATING SMALL BUSINESSES

## Roll up for the personal touch

Victoria Griffith on how US small companies can join forces without reducing customer service

Have you ever felt that the family-run corner shop might have a lot to teach big companies about customer management?

Store owners' ability to remember the names of regular customers, stock up on their favourite items or forgive a small debt can inspire the kind of loyalty that often seems beyond the reach of larger groups. Many people, when thrown into an anonymous, bureaucratic relationship with mega-corporations, long for that old-fashioned personal touch.

The advantages of small, family-style enterprises have not escaped the notice of the US stock market. Indeed, investors are increasingly recognising their value through management structures called "roll-ups".

Roll-ups bring dozens, sometimes hundreds, of local businesses together into a consolidated company that aims to gain economies of scale without forfeiting customer relationships.

The management structure of these organisations may hold important lessons for larger companies. Roll-ups often have very loose control at the top, allowing for a great deal of autonomy on the ground – allowing, for instance, each business to keep its brand name.

Such management structures are becoming increasingly popular, particularly in the US. "There isn't an industry in America that isn't under attack by consolidators," says Bill Sahlin, a professor at Harvard Business School.

"There are hundreds of people out there who are trying to figure out how to combine small companies and get something interesting." Some better-known roll-ups are Service Corporation International, the undertaker that this month announced the purchase of another roll-up, Equity Corporation International; US Office Products and US Floral Products, which were created by Jonathan Ledecy, who is considered

something of a roll-up guru; and Dispatch Management Services, a courier service that went public earlier this year. Travel agencies, office services and funeral parlours seem particularly suited to this structure.

The US stock market seems to like these organisations. Equity prices in consolidators were up 18 per cent for the first six months of the year, says San Francisco-based Montgomery Securities. However, prices have been hit by general market decline, particularly on the Nasdaq exchange where many are traded.

A key premise of roll-ups is that customer service and product quality tends to deteriorate with size. The bigger the organisation, the more likely customers are to fall into an uncaring bureaucracy.

"You call the toll-free number to make a complaint and get switched around to another department," says Linda Jenkinson, chief executive of Dispatch Management Services, which couriers packages within cities and internationally. "You talk to Butch, get cut off, and phone in again. That's the way big companies handle customer service."

At Dispatch Management, original brands and managers are maintained. The client would be directed to a central location only if the local company is too busy to cope. "People are always talking to the same people, so you create feelings of intimacy and form relationships," says Ms Jenkinson.

Dispatch Management also tries to give individual couriers as much power as possible. There is no central office telling people where to go. Instead, management announces orders over the radio, and the first caller picks up the business. "It works like taxi. The couriers themselves know how close they are to locations and can organise themselves much better than a top-down manager could."

If customer relationships

and job organisation function much better on a small scale, why bother to consolidate at all?

A key principle of roll-ups is that there are important economies of scale to be gained. Consolidators seek to boost profits by centralising purchasing, payroll and other support services.

"If Staples (a large US office supply retail chain) purchases \$200m in 'Post-its' from 3M (a large manufacturer of paper goods), they are going to get a huge discount," says Mr Ledecy. "Small businesses on their own are at a big disadvantage because they're paying much more for their materials."

Mr Ledecy says that at one of his roll-up groups, management played on telephone service against another to receive a substantial "prebate" – a cash payment for expected demand. "That's the kind of thing big companies do well," he says.

While the roll-up management model is becoming increasingly popular, many are sceptical of organisations that take the bottom-up approach to the extreme. "Not all consolidators are created equal," says David Scharf, who analyses the sector for Montgomery Securities.

For a consolidator to do well, there must be a strong rationale for operating nationally, rather than locally, says Bruce Rauner, a venture capitalist specialising in roll-ups at Golder, Thomas, Cressley, Rauner.

"Companies that instill a central corporate 'culture' and those that adopt a 'best practices' approach to change the way things are done at their operations are a step ahead," he says.

It would be a mistake to assume that just because a business is small, its relationship with customers is good. "While there are innumerable dry cleaners through the country, there are relatively few synergies available from owning a national chain of them," says Mr Rauner.

"These companies don't typically establish strong local franchises that can be counted on to retain loyal customers."

Europe passes on





pace of change

up for the  
onal touch

## EQUITIES

## Europe passes on Wall St rally

## EUROPEAN OVERVIEW

By Philip Coggan,  
Markets Editor

European bourses did not take the opportunity of Wall Street's big gain on Tuesday to carry on with their recent rally. Mixed news from Japan and some renewed worries about the exposure of the banking sector to emerging markets sent most markets lower.

Since the global correction began in mid-July, markets have been extremely volatile and it was perhaps no surprise that European equities could not achieve a fourth

day of gains, even after Tuesday's 380-point gain in the Dow Jones Industrial Average.

Worries about Japanese banks' derivatives losses and some figures from Credit Suisse on its emerging-market exposure outweighed the beneficial effects for Europe of the Japanese rate cut and the consequent rebound in the dollar.

The FTSE Eurotop 100 index fell 43.56 or 1.7 per cent to 2,541.68, while the broader Eurotop 300 dropped 174.1 or 1.00 per cent to 17,100.82. The FTSE Ecol 100 index, which comprises stocks in countries planning to be part of the

single currency, reversed some of Tuesday's outperformance. It fell 18.6, or 0.2 per cent, to 9,100.65.

Financial stocks, which had been showing signs of a revival in recent sessions, slipped back again on the CS news and the Japanese derivatives stories. CS shares themselves fell Ecu 30.90 to Ecu 131.47, while Deutsche Bank dropped Ecu 3.20 to Ecu 55.16. The retail banking sector dipped 3.5 per cent.

The distribution sector fell 3.2 per cent with an Adidas investor roadshow reportedly going badly. Adidas shares lost Ecu 7.90 to Ecu

101.44. The best performing sector of the day was breweries, pubs and restaurants after Merrill Lynch issued recommendations on some of the UK stocks. Bass was up Ecu 0.40 to Ecu 18.16 and Whitbread Ecu 0.70 to Ecu 11.93.

In automobiles, Peugeot produced profits at the top end of expectations and saw its shares gain Ecu 4.60 to Ecu 151.83.

But the sector fell 1.3 per cent, dragged down by BMW, which dropped Ecu 61.3 to Ecu 646.56.

More Euro coverage on the Business and the Euro page

## FTSE Eurotop 300

By Philip Coggan

Markets Editor

1998 Sep 10

1998 Sep 9

1998 Sep 8

1998 Sep 7

1998 Sep 4

1998 Sep 3

1998 Sep 2

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1998 Aug 31

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## FTSE Actuaries Share Index

By Philip Coggan

Markets Editor

1998 Sep 10

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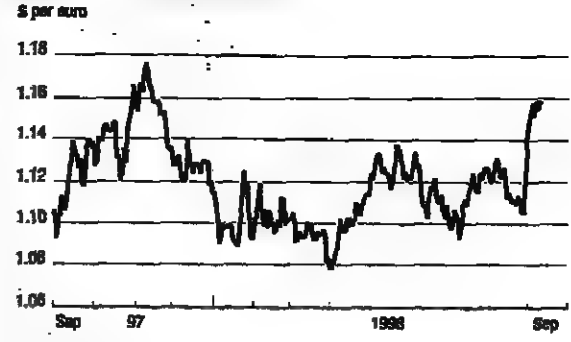
1997 Nov 3

## CURRENCIES &amp; MONEY

## FT SYNTHETIC EURO RATES

Day 30	Country	Current	Change	Change	Change	Change
			on day	on day	on week	on month
Spain	ESP	14.858102	-0.0051	-0.04	-0.0079	-0.06
Austria	OS	41.220719	-0.0150	-0.04	-0.0001	-0.00
Czech Republic	CZK	35.384403	-0.0004	-0.00	-0.0089	-0.16
Denmark	DKK	7.828470	-0.0134	-0.16	-0.0012	-0.01
Finland	FIN	6.078482	-0.0001	-0.00	-0.0020	-0.03
France	FRF	6.579308	-0.0004	-0.00	-0.0001	-0.00
Germany	DEM	1.937611	-0.0006	-0.04	-0.0011	-0.00
Greece	GRD	342.022285	-0.0000	-0.00	-0.0000	-0.00
Hungary	HUF	297.460225	-0.0000	-0.00	-0.0000	-0.00
Italy	LIT	1936.263600	-0.0000	-0.00	-0.0000	-0.00
Japan	JPY	163.900000	-0.0000	-0.00	-0.0000	-0.00
Netherlands	FLG	2.203710	-0.0000	-0.00	-0.0000	-0.00
Norway	NOK	8.967237	-0.0000	-0.00	-0.0000	-0.00
Poland	PLN	4.175498	-0.0000	-0.00	-0.0000	-0.00
Portugal	ESC	204.740772	-0.0000	-0.00	-0.0000	-0.00
Sweden	SEK	8.967237	-0.0000	-0.00	-0.0000	-0.00
Switzerland	CHF	1.735721	-0.0000	-0.00	-0.0000	-0.00
United Kingdom	GBP	1.515271	-0.0000	-0.00	-0.0000	-0.00
USA	USD	1.636441	-0.0000	-0.00	-0.0000	-0.00
Canada	CND	1.761459	-0.0000	-0.00	-0.0000	-0.00
Mexico	MXN	12.025985	-0.0000	-0.00	-0.0000	-0.00
South Africa	ZAR	1.937611	-0.0000	-0.00	-0.0000	-0.00
South Korea	KRW	1.937611	-0.0000	-0.00	-0.0000	-0.00
Taiwan	TWD	1.937611	-0.0000	-0.00	-0.0000	-0.00
Thailand	THB	1.937611	-0.0000	-0.00	-0.0000	-0.00
India	INR	1.937611	-0.0000	-0.00	-0.0000	-0.00
China	CNY	1.937611	-0.0000	-0.00	-0.0000	-0.00
Indonesia	IDR	1.937611	-0.0000	-0.00	-0.0000	-0.00
Malaysia	MYR	1.937611	-0.0000	-0.00	-0.0000	-0.00
Philippines	PHP	1.937611	-0.0000	-0.00	-0.0000	-0.00
Singapore	S\$	1.937611	-0.0000	-0.00	-0.0000	-0.00
South Korea	KRW	1.937611	-0.0000	-0.00	-0.0000	-0.00
Taiwan	TWD	1.937611	-0.0000	-0.00	-0.0000	-0.00
Thailand	THB	1.937611	-0.0000	-0.00	-0.0000	-0.00
India	INR	1.937611	-0.0000	-0.00	-0.0000	-0.00
China	CNY	1.937611	-0.0000	-0.00	-0.0000	-0.00
Indonesia	IDR	1.937611	-0.0000	-0.00	-0.0000	-0.00
Malaysia	MYR	1.937611	-0.0000	-0.00	-0.0000	-0.00
Philippines	PHP	1.937611	-0.0000	-0.00	-0.0000	-0.00
Singapore	S\$	1.937611	-0.0000	-0.00	-0.0000	-0.00

## Synthetic Euro against the dollar



## EUROZONE CURRENCY CONVERGENCE

Stagnant conversion rates against the D-Mark:						
Day 30	Fixed rate	Market rate	D-Mark bid/offer	Week ago	Forward rate	Forward bid/offer rate
Austria	7.03502	7.0396	-0.01	-0.01	7.0275	3.57
Belgium	20.3356	20.6337	-0.05	-0.01	20.5342	3.5
France	3.33586	3.3672	-0.16	-0.05	3.3597	3.5
Germany	3.04001	3.0426	-0.10	-0.09	3.0403	3.56
Italy	8.40076	8.3982	0.02	0.0	8.4016	3.87
Netherlands	990.002	997.2036	-0.28	-0.27	991.3265	-4.13
Luxembourg	20.3285	20.6367	-0.05	-0.01	20.6242	3.5
Netherlands	1.12574	1.13	-0.09	-0.15	1.1200	3.4
Portugal	102.935	102.4886	-0.01	-0.17	102.8588	4.16
Spain	95.0722	94.9118	-0.19	-0.19	95.1030	4.24
Switzerland						3.52



## INTERNATIONAL CAPITAL MARKETS

## EUROBONDS BEIRUT HOPES TO LIFT PROFILE

## Lebanon in plan to raise \$250m

By Rouda Khafat in Beirut

Lebanon is pushing ahead with plans to raise at least \$250m through a eurobond issue, in spite of market turbulence, the finance ministry said yesterday.

Largely staged as a publicity stunt to promote the profile of the country among international investors, the seven-year bond issue will, for the most part, be placed with Lebanese banks rather than foreign investors.

The \$250m issue, managed by Merrill Lynch and to be priced in the next few days, is part of a \$2bn programme aimed at restructuring Lebanon's debt and alleviating the much higher cost of internal debt. A first issue of \$1bn was completed in April, with about two-thirds placed with Lebanese banks.

Local demand is driven by the fact that more than half the deposits in Lebanese banks are in dollars and growth in dollar lending has been falling. Foreign currency deposits rose by \$8bn last year, but lending in dollars went up by only \$1.5bn.

Lebanese banks have a vested interest in maintaining the stability of the economy and the often shaky local currency but also perceive an improving economic and political environment.

For the first time since the end of the civil war in 1990, the target for the budget deficit this year - at a huge 42

per cent of expenditures - at least looks attainable. The holding of credible municipal elections this summer has also sent a comforting signal to domestic investors.

Bankers also say that Damascus, the power broker in Lebanon, has been signalling that it will back a president in the autumn elections who will be committed to working with Rafiq Hariri, the prime minister, to implement economic reforms.

These indicators led Thomson BankWatch, the rating agency, to change its outlook on Lebanon last week to positive, while emerging markets were taking a severe beating.

The effect of the emerging markets crisis on Lebanon has also been contained. With most foreign holders of domestic Treasury bills having cashed in their profits last autumn, those selling in the past two weeks have created only limited pressure on the local currency.

Lebanese banks' appetite for government paper is the main reason spreads on Lebanese issues have held up much better than in other emerging markets.

Sources in Beirut say spreads on recent issues would not have deteriorated significantly even if political and economic prospects had not improved, because large domestic buyers of April's \$1bn issue appear to have committed to holding the bonds for several months.

The finance ministry and the central bank, however, yesterday said they had not made any lock-up deals with the banks.

## BoJ easing helps prices rise

By Jeremy Grant in London and John Labate in New York

Prices firmed on a fistful of bond-friendly factors, including weaker equity markets, a stronger dollar against the yen and expectations of softer interest rates globally after the Bank of Japan unexpectedly eased monetary policy.

The BoJ said it would guide its overnight call rate towards an average 0.25 per cent, almost halving its previous target of 0.45 per cent.

Traders said the move might put pressure on other central banks to consider cutting rates, although few accepted that the Bank of England might do so today when it announces the result of two days of inflation deliberations.

Eric Fishwick, international economist at Nikko, said: "Markets love to speculate on concerted moves. To my mind, this is most significant for its insight into BoJ currency attitudes; it seems to be sanctioning a weaker yen, which for Japanese bonds is positive."

US TREASURIES rebounded from weakness on Tuesday, as the dollar surged against the yen after the Japanese interest rate move.

By early afternoon the 30-year long bond yield had fallen to 5.289 per cent as the price rose by 1 1/2 to 10 1/2.

Some analysts suggest that the benchmark bond yield may fall below 5 per cent faster than previously thought on the back of the Japanese rate cut.

Shorter-term issues also rallied. The 10-year note went up 1/2 to 10 1/2, yielding 4.958 per cent, and the two-year note climbed 1/2 to 10 1/2, yielding 4.805 per cent.

"The bond [future] is testing previous highs, and that is obviously helped by the falling stock market," said Ken Fan, US bond strategist at Paribas Capital Markets.

US equities fell back in morning trade, with the Dow Jones Industrial Average down by almost 100 points by midday.

One day after Treasuries sold off in the middle of an explosive comeback for US equities, the focus yesterday turned to Asia and the Bank of Japan's cut in its overnight lending rate.

Speculation mounted that further cuts would be made elsewhere, including in the US, which further buoyed bond prices.

UK GILTS closed sharply higher on the Japanese interest rate move but underperformed other core European bond markets, principally bonds.

The December 10-year gilt future settled up 0.51 points at 112.78. In the cash market, the spread between the benchmark gilt and bund contracts widened by five basis points to 115.

GERMAN BONDS held on to solid gains in late trading as German stocks lost ground and Wall Street opened lower.

The December 10-year bund future settled up 0.96 at 112.86 in volume of more than 500,000 contracts traded in Frankfurt.

## DUAL LISTING RED TAPE OVERCOME

## Israel to lift objections to US moves

By Judy Dempsey in Jerusalem

Israel's Securities Authority will lift objections to dual-listing of Israeli companies currently trading on the New York Stock Exchange and Nasdaq but so far blocked by red tape from trading in Tel Aviv.

The move follows the conclusion of a committee, headed by David Brodet, former director-general of the finance ministry, which recommends a fast-track system for dual-listing of Israeli companies traded in the US.

Once implemented, analysts said liquidity would increase significantly on the Tel Aviv Stock Exchange, which has recorded average daily volumes of \$127m (\$22m) over recent weeks.

"There is no doubt turnover would rise sharply," said Eli Nahum, head of trading at investment house Nessuah Zannan.

Saul Bronfeld, managing director of TASE, recently predicted volume and commissions could increase at least 25 per cent. The exchange has a market capitalisation of \$140bn, while New York Israeli stocks have a market capitalisation of about \$20bn.

The potential inclusion of some 100 stocks, many from the hi-tech sector, will boost the number of players on TASE, which has been dominated mainly by a few large Israeli families, banks and institutional investors.

It could also make TASE more attractive to foreign investors, who until recently accounted for about 12 per cent of daily turnover.

After the start of the Russian crisis last month, they moved to the sidelines, pushing down the TA-100 and MSCI-25 market indices by 9 per cent.

Foreign investors have repeatedly complained that the liquidity of Israeli stocks traded in Tel Aviv is too low, with majority stakes generally controlled by a few families and a complex system of cross-holdings between banks and the largest holding companies.

According to Kobi Avramov, analyst at TASE, the public holds more than 80 per cent of the share capital and voting rights in only 58 of the 680 stocks listed on the exchange.

"This has also created problems for liquidity and transparency," said Ronit Harel Ben Ze'ev, economist at TASE.

However, small investors could also benefit from dual listings since they would no longer have to pay triple commissions to trade Israeli shares on Wall Street.

The Brodet committee recommended that the ISA drop its insistence on approving private placements. Furthermore, it should accept the New York Stock Exchange Commission's approved prospectuses instead of insisting on its own.

The requirement for companies to notify the ISA immediately of negotiations with outside parties should be dropped as well, while the ISA should accept in principle the SEC's rules requiring it to be informed only when an agreement has been reached.

## EIB reopens dollar sector

By Edward Lucas, Capital Markets Editor

The European Investment Bank reopened the 10-year eurodollar sector yesterday with an extensively pre-marketed \$750m offering.

The bond - the EIB's first dollar 10-year in more than six months - followed a notable improvement in market sentiment in the past few days.

"There is now an appetite for eurobonds again," said an official at Morgan Stanley, joint lead with Merrill Lynch. "But it is confined to AAA borrowers."

The bond was priced to yield 44 basis points over the Treasury benchmark - about 19 basis points wider than the spread on its last

New international bond issues									
Borrower	Amount m.	Coupon %	Price	Maturity	Yield %	Spread bp	Book-runner		
IN US DOLLARS									
European Investment Bank	750	5.375	99.207/1	Sep 2008	0.325R	+44/54	Morgan Stanley		
Rabobank Nederland	500	5.50	99.041/1R	Sep 2008	0.325R	+55/64	Merrill Lynch		
Paribas Corp. (Paris)	100	6.00	100.00	Oct 2002	0.15	-	J.P. Morgan		
Paribas Corp. (Paris)	200	6.00	100.00	Oct 2002	0.20	-	J.P. Morgan		
GECCO	300	6.75	99.84R	Sep 2008	0.325R	+70/84	Merrill Lynch		
IN STERLING									
Chelsea Building Society	125	6.75	100.00	Oct 2001	0.25	-	Greenwich		
IN SWISS FRANC									
New Waterparkbank	150	3.50	102.80	Oct 2008	2.75	-	ABN-Amro		
IN EUROPEAN CURRENCY									
Kingdom of Sweden	1bn	5.00	103.35R	Jan 2009	0.15R	-22B	JPMorgan		

Final terms, non-callable unless stated. Yield spread (over gov bond) at launch supplied by lead manager. \* Floating-rate. R: Fixed or offer price, less shown at or over level. # Secured on Australian residential mortgages originated by Remy Mortgage Corp. Callable from 10/1/04 at 10c. 20% subordinated call. #1) At 10c 2.75 year. 3-month Libor +140bp to Oct 04. the 2nd 3.00 year. 3-month Libor +180bp to Oct 04. the 3rd 3.50 year. 3-month Libor +220bp to Oct 04. the 4th 4.00 year. 3-month Libor +260bp to Oct 04. the 5th 4.50 year. 3-month Libor +300bp to Oct 04. the 6th 5.00 year. 3-month Libor +340bp to Oct 04. the 7th 5.50 year. 3-month Libor +380bp to Oct 04. the 8th 6.00 year. 3-month Libor +420bp to Oct 04. the 9th 6.50 year. 3-month Libor +460bp to Oct 04. the 10th 7.00 year. 3-month Libor +500bp to Oct 04. the 11th 7.50 year. 3-month Libor +540bp to Oct 04. the 12th 8.00 year. 3-month Libor +580bp to Oct 04. the 13th 8.50 year. 3-month Libor +620bp to Oct 04. the 14th 9.00 year. 3-month Libor +660bp to Oct 04. the 15th 9.50 year. 3-month Libor +700bp to Oct 04. the 16th 10.00 year. 3-month Libor +740bp to Oct 04. the 17th 10.50 year. 3-month Libor +780bp to Oct 04. the 18th 11.00 year. 3-month Libor +820bp to Oct 04. the 19th 11.50 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3-month Libor +3820bp to Oct 04. the 94th 49.00 year. 3-month Libor +3860bp to Oct 04. the 95th 49.50 year. 3-month Libor +3900bp to Oct 04. the 96th 50.00 year. 3-month Libor +3940bp to Oct 04. the 97th 50.50 year. 3-month Libor +3980bp to Oct 04. the 98th 51.00 year. 3-month Libor +4020bp to Oct 04. the 99th 51.50 year. 3-month Libor +4060bp to Oct 04. the 100th 52.00 year. 3-month Libor +4100bp to Oct 04. the 101st 52.50 year. 3-month Libor +4140bp to Oct 04. the 102nd 53.00 year. 3-month Libor +4180bp to Oct 04. the 103rd 53.50 year. 3-month Libor +4220bp to Oct 04. the 104th 54.00 year. 3-month Libor +4260bp to Oct 04. the 105th 54.50 year. 3-month Libor +4300bp to Oct 04. the 106th 55.00 year. 3-month Libor +4340bp to Oct 04. the 107th 55.50 year. 3-month Libor +4380bp to Oct 04. the 108th 56.00 year. 3-month Libor +4420bp to Oct 04. the 109th 56.50 year. 3-month Libor +4460bp to Oct 04. the 110th 57.00 year. 3-month Libor +4500bp to Oct 04. the 111th 57.50 year. 3-month Libor +4540bp to Oct 04. the 112th 58.00 year. 3-month Libor +4580bp to Oct 04. the 113th 58.50 year. 3-month Libor +4620bp to Oct 04. the 114th 59.00 year. 3-month Libor +4660bp to Oct 04. the 115th 59.50 year. 3-month Libor +4700bp to Oct 04. the 116th 60.00 year. 3-month Libor +4740bp to Oct 04. the 117th 60.50 year. 3-month Libor +4780bp to Oct 04. the 118th 61.00 year. 3-month Libor +4820bp to Oct 04. the 119th 61.50 year. 3-month Libor +4860bp to Oct 04. the 120th 62.00 year. 3-month Libor +4900bp to Oct 04. the 121st 62.50 year. 3-month Libor +4940bp to Oct 04. the 122nd 63.00 year. 3-month Libor +4980bp to Oct 04. the 123rd 63.50 year. 3-month Libor +5020bp to Oct 04. the 124th 64.00 year. 3-month Libor +5060bp to Oct 04. the 125th 64.50 year. 3-month Libor +5100bp to Oct 04. the 126th 65.00 year. 3-month Libor +5140bp to Oct 04. the 127th 65.50 year. 3-month Libor +5180bp to Oct 04. the 128th 66.00 year. 3-month Libor +5220bp to Oct 04. the 129th 66.50 year. 3-month Libor +5260bp to Oct 04. the 130th 67.00 year. 3-month Libor +5300bp to Oct 04. the 131st 67.50 year. 3-month Libor +5340bp to Oct 04. the 132nd 68.00 year. 3-month Libor +5380bp to Oct 04. the 133rd 68.50 year. 3-month Libor +5420bp to Oct 04. the 134th 69.00 year. 3-month Libor +5460bp to Oct 04. the 135th 69.50 year. 3-month Libor +5500bp to Oct 04. the 136th 70.00 year. 3-month Libor +5540bp to Oct 04. the 137th 70.50 year. 3-month Libor +5580bp to Oct 04. the 138th 71.00 year. 3-month Libor +5620bp to Oct 04. the 139th 71.50 year. 3-month Libor +5660bp to Oct 04. the 140th 72.00 year. 3-month Libor +5700bp to Oct 04. the 141st 72.50 year. 3-month Libor +5740bp to Oct 04. the 142nd 73.00 year. 3-month Libor +5780bp to Oct 04. the 143rd 73.50 year. 3-month Libor +5820bp to Oct 04. the 144th 74.00 year. 3-month Libor +5860bp to Oct 04. the 145th 74.50 year. 3-month Libor +5900bp to Oct 04. the 146th 75.00 year. 3-month Libor +5940bp to Oct 04. the 147th 75.50 year. 3-month Libor +5980bp to Oct 04. the 148th 76.00 year. 3-month Libor +6020bp to Oct 04. the 149th 76.50 year. 3-month Libor +6060bp to Oct 04. the 150th 77.00 year. 3-month Libor +6100bp to Oct 04. the 151st 77.50 year. 3-month Libor +6140bp to Oct 04. the 152nd 78.00 year. 3-month Libor +6180bp to Oct 04. the 153rd 78.50 year. 3-month Libor +6220bp to Oct 04. the 154th 79.00 year. 3-month Libor +6260bp to Oct 04. the 155th 79.50 year. 3-month Libor +6300bp to Oct 04. the 156th 80.00 year. 3-month Libor +6340bp to Oct 04. the 157th 80.50 year. 3-month Libor +6380bp to Oct 04. the 158th 81.00 year. 3-month Libor +6420bp to Oct 04. the 159th 81.50 year. 3-month Libor +6460bp to Oct 04. the 160th 82.00 year. 3-month Libor +6500bp to Oct 04. the 161st 82.50 year. 3-month Libor +6540bp to Oct 04. the 162nd 83.00 year. 3-month Libor +6580bp to Oct 04. the 163rd 83.50 year. 3-month Libor +6620bp to Oct 04. the 164th 84.00 year. 3-month Libor +6660bp to Oct 04. the 165th 84.50 year. 3-month Libor +6700bp to Oct 04. the 166th 85.00 year. 3-month Libor +6740bp to Oct 04. the 167th 85.50 year. 3-month Libor +6780bp to Oct 04. the 168th 86.00 year. 3-month Libor +6820bp to Oct 04. the 169th 86.50 year. 3-month Libor +6860bp to Oct 04. the 170th 87.00 year. 3-month Libor +6900bp to Oct 04. the 171st 87.50 year. 3-month Libor +6940bp to Oct 04. the 172nd 88.00 year. 3-month Libor +6980bp to Oct 04. the 173rd 88.50 year. 3-month Libor +7020bp to Oct 04. the 174th 89.00 year. 3-month Libor +7060bp to Oct 04. the 175th 89.50 year. 3-month Libor +7100bp to Oct 04. the 176th 90.00 year. 3-month Libor +7140bp to Oct 04. the 177th 90.50 year. 3-month Libor +7180bp to Oct 04. the 178th 91.00 year. 3-month Libor +7220bp to Oct 04. the 179th 91.50 year. 3-month Libor +7260bp to Oct 04. the 180th 92.00 year. 3-month Libor +7300bp to Oct 04. the 181st 92.50 year. 3-month Libor +7340bp to Oct 04. the 182nd 93.00 year. 3-month Libor +7380bp to Oct 04. the 183rd 93.50 year. 3-month Libor +7420bp to Oct 04. the 184th 94.00 year. 3-month Libor +7460bp to Oct 04. the 185th 94.50 year. 3-month Libor +7500bp to Oct 04. the 186th 95.00 year. 3-month Libor +7540bp to Oct 04. the 187th 95.50 year. 3-month Libor +7580bp to Oct 04. the 188th 96.00 year. 3-month Libor +7620bp to Oct 04. the 189th 96.50 year. 3-month Libor +7660bp to Oct 04. the 190th 97.00 year. 3-month Libor +7700bp to Oct 04. the 191st 97.50 year. 3-month Libor +7740bp to Oct 04. the 192nd 98.00 year. 3-month Libor +7780bp to Oct 04. the 193rd 98.50 year. 3-month Libor +7820bp to Oct 04. the 194th 99.00 year. 3-month Libor +7860bp to Oct 04. the 195th 99.50 year. 3-month Libor +7900bp to Oct 04. the 196th 100.00 year. 3-month Libor +7940bp to Oct 04. the 197th 100.50 year. 3-month Libor +7980bp to Oct 04. the 198th 101.00 year. 3-month Libor +8020bp to Oct 04. the 199th 101.50 year. 3-month Libor +8060bp to Oct 04. the 200th 102.00 year. 3-month Libor +8100bp to Oct 04. the 201st 102.50 year. 3-month Libor +8140bp to Oct 04. the 202nd 103.00 year. 3-month Libor +8180bp to Oct 04. the 203rd 103.50 year. 3-month Libor +8220bp to Oct 04. the 204th 104.00 year. 3-month Libor +8260bp to Oct 04. the 205th 104.50 year. 3-month Libor +8300bp to Oct 04. the 206th 105.00 year. 3-month Libor +8340bp to Oct 04. the 207th 105.50 year. 3-month Libor +8380bp to Oct 04. the 208th 106.00 year. 3-month Libor +8420bp to Oct 04. the 209th 106.50 year. 3-month Libor +8460bp to Oct 04. the 210th 107.00 year. 3-month Libor +8500bp to Oct 04. the 211st 107.50 year. 3-month Libor +8540bp to Oct 04. the 212nd 108.00 year. 3-month Libor +8580bp to Oct 04. the 213th 108.50 year. 3-month Libor +8620bp to Oct 04. the 214th 109.00 year. 3-month Libor +8660bp to Oct 04. the 215th 109.50 year. 3-month Libor +8700bp to Oct 04. the 216th 110.00 year. 3-month Libor +8740bp to Oct 04. the 217th 110.50 year. 3-month Libor +8780bp to Oct 04. the 218th 111.00 year. 3-month Libor +8820bp to Oct 04. the 219th 111.50 year. 3-month Libor +8860bp to Oct 04. the 220th 112.00 year. 3-month Libor +8900bp to Oct 04. the 221st 112.50 year. 3-month Libor +8940bp to Oct 04. the 222nd 113.00 year. 3-month Libor +8980bp to Oct 04. the 223rd 113.50 year. 3-month Libor +9020bp to Oct 04. the 224th 114.00 year. 3-month Libor +9060bp to Oct 04. the 225th 114.50 year. 3-month Libor +9100bp to Oct 04. the 226th 115.00 year. 3-month Libor +9140bp to Oct 04. the 227th 115.50 year. 3-month Libor +9180bp to Oct 04. the 228th 116.00 year. 3-month Libor +9220bp to Oct 04. the 229th 116.50 year. 3-month Libor +9260bp to Oct 04. the 230th 117.00 year. 3-month Libor +9300bp to Oct 04. the 231st 117.50 year. 3-month Libor +9340bp to Oct 04. the 232nd 118.00 year. 3-month Libor +9380bp to Oct 04. the 233rd 118.50 year. 3-month Libor +9420bp to Oct 04. the 234th 119.00 year. 3-month Libor +9460bp to Oct 04. the 235th 119.50 year. 3-month Libor +9500bp to Oct 04. the 236th 120.00 year. 3-month Libor +9540bp to Oct 04. the 237th 120.50 year. 3-month Libor +9580bp to Oct 04. the 238th 121.00 year. 3-month Libor +9620bp to Oct 04. the 239th 121.50 year. 3-month Libor +9660bp to Oct 04. the 240th 122.00 year. 3-month Libor +9700bp to Oct 04. the 241st 122.50 year. 3-month Libor +9740bp to Oct 04. the 242nd 123.00 year. 3-month Libor +9780bp to Oct 04. the 243rd 123.50 year. 3-month Libor +9820bp to Oct 04. the 244th 124.00 year. 3-month Libor +9860bp to Oct 04. the 245th 124.50 year. 3-month Libor +9900bp to Oct 04. the 246th 125.00 year. 3-month Libor +9940bp to Oct 04. the 247th 125.50 year. 3-month Libor +9980bp to Oct 04. the 248th 126.00 year. 3-month Libor +10020bp to Oct 04. the 249th 126.50 year. 3-month Libor +10060bp to Oct 04. the 250th 127.00 year. 3-month Libor +10100bp to Oct 04. the 251st 127.50 year. 3-month Libor +10140bp to Oct 04. the 252nd 128.00 year. 3-month Libor +10180bp to Oct 04. the 253rd 128.50 year. 3-month Libor +10220bp to Oct 04. the 254th 129.00 year. 3-month Libor +10260bp to Oct 04. the 255th 129.50 year. 3-month Libor +10300bp to Oct 04. the 256th 130.00 year. 3-month Libor +10340bp to Oct 04. the 257th 130.50 year. 3-month Libor +10380bp to Oct 04. the 258th 131.00 year. 3-month Libor +10420bp to Oct 04. the 259th 131.50 year. 3-month Libor +10460bp to Oct 04. the 260th 132.00 year. 3-month Libor +10500bp to Oct 04. the 261st 132.50 year. 3-month Libor +10540bp to Oct 04. the 262nd 133.00 year. 3-month Libor +10580bp to Oct 04. the 263rd 133.50 year. 3-month Libor +10620bp to Oct 04. the 264th 134.00 year. 3-month Libor +10660bp to Oct 04. the 265th 134.50 year. 3-month Libor +10700bp to Oct 04. the 266th 135.00 year. 3-month Libor +10740bp to Oct 04. the 267th 135.50 year. 3-month Libor +10780bp to Oct 04. the 268th 136.00 year. 3-month Libor +10820bp to Oct 04. the 269th 136.50 year. 3-month Libor +10860bp to Oct 04. the 270th 137.00 year. 3-month Libor +10900bp to Oct 04. the 271st 137.50 year. 3-month Libor +10940bp to Oct 04. the 272nd 138.00 year. 3-month Libor +10980bp to Oct 04. the 273rd 138.50 year. 3-month Libor +11020bp to Oct 04. the 274th 139.00 year. 3-month Libor +11060bp to Oct 04. the 275th 139.50 year. 3-month Libor +11100bp to Oct 04. the 276th 140.00 year. 3-month Libor +11140bp to Oct 04. the 277th 140.50 year. 3-month Libor +11180bp to Oct 04. the 278th 141.00 year. 3-month Libor +11220bp to Oct 04. the 279th 141.50 year. 3-month Libor +11260bp to Oct 04. the 280th 142.00 year. 3-month Libor +11300bp to Oct 04. the 281st 142.50 year. 3-month Libor +11340bp to Oct 04. the 282nd 143.00 year. 3-month Libor +11380bp to Oct 04. the 283rd 143.50 year. 3-month Libor +11420bp to Oct 04. the 284th 144.00 year. 3-month Libor +11460bp to Oct 04. the 285th 144.50 year. 3-month Libor +11500bp to Oct 04. the 286th 145.00 year. 3-month Libor +11540bp to Oct 04. the 287th 145.50 year. 3-month Libor +11580bp to Oct 04. the 288th 146.00 year. 3-month Libor +11620bp to Oct 04. the 289th 146.50 year. 3-month Libor +11660bp to Oct 04. the 290th 147.00 year. 3-month Libor +11700bp to Oct 04. the 291st 147.50 year. 3-month Libor +11740bp to Oct 04. the 292nd 148.00 year. 3-month Libor +11780bp to Oct 04. the 293rd 148.50 year. 3-month Libor +11820bp to Oct 04. the 294th 149.00 year. 3-month Libor +11860bp to Oct 04. the 295th 149.50 year. 3-month Libor +11900bp to Oct 04. the 296th 150.00 year. 3-month Libor +11940bp to Oct 04. the 297th 150.50 year. 3-month Libor +11980bp to Oct 04. the 298th 151.00 year. 3-month Libor +12020bp to Oct 04. the 299th 151.50 year. 3-month Libor +12060bp to Oct 04. the 300th 152.00 year. 3-month Libor +12100bp to Oct 04. the 301st 152.50 year. 3-month Libor +12140bp to Oct 04. the 302nd 153.00 year. 3-month Libor +12180bp to Oct 04. the 303rd 153.50 year. 3-month Libor +12220bp to Oct 04. the 304th 154.00 year. 3-month Libor +12260bp to Oct 04. the 305th 154.50 year. 3-month Libor +12300bp to Oct 04. the 306th 155.00 year. 3-month Libor +12340bp to Oct 04. the 307th 155.50 year. 3-month Libor +12380bp to Oct 04. the 308th 156.00 year. 3-month Libor +12420bp to Oct 04. the 309th 156.50 year. 3-month Libor +12460bp to Oct 04. the 310th 157.00 year. 3-month Libor +12500bp to Oct 04. the 311st 157.50 year. 3-month Libor +12540bp to Oct 04. the 312nd 158.00 year. 3-month Libor +12580bp to Oct 04. the 313th 158.50 year. 3-month Libor +12620bp to Oct 04. the 314th 159.00 year. 3-month Libor +12660bp to Oct 04. the 315th 159.50 year. 3-month Libor +12700bp to Oct 04. the 316th 160.00 year. 3-month Libor +12740bp to Oct 04. the 317th 160.50 year. 3-month Libor +12780bp to Oct 04. the 318th 161.00 year. 3-month Libor +12820bp to Oct 04. the 319th 161.50 year. 3-month Libor +12860bp to Oct 04. the 320th 162.00 year. 3-month Libor +12900bp to Oct 04. the 321st 162.50 year. 3-month Libor +12940bp to Oct 04. the 322nd 163.00 year. 3-month Libor +12980bp to Oct 04. the 323rd 163.50 year. 3-month Libor +13020bp to Oct 04. the 324th 164.00 year. 3-month Libor +13060bp to Oct 04. the 325th 164.50 year. 3-month Libor +13100bp to Oct 04. the 326th 165.00 year. 3-month Libor +13140bp to Oct 04. the 327th 165.50 year. 3-month Libor +13180bp to Oct 04. the 328th 166.00 year. 3-month Libor +13220bp to Oct 04. the 329th 166.50 year. 3-month Libor +13260bp to Oct 04. the 330th 167.00 year. 3-month Libor +13300bp to Oct 04. the 331st 167.50 year. 3-month Libor +13340bp to Oct 04. the 332nd 168.00 year. 3-month Libor +13380bp to Oct 04. the 333rd 168.50 year. 3-month Libor +13420bp to Oct 04. the 334th 169.00 year. 3-month Libor +13460bp to Oct 04. the 335th 169.50 year. 3-month Libor +13500bp to Oct 04. the 336th 170.00 year. 3-month Libor +13540bp to Oct 04. the 337th 170.50 year. 3-month Libor +13580bp to Oct 04. the 338th 171.00 year. 3-month Libor +13620bp to Oct 04. the 339th 171.50 year. 3-month Libor +13660bp to Oct 04. the 340th 172.00 year. 3-month Libor +13700bp to Oct 04. the 341st 172.50 year. 3-month Libor +13740bp to Oct 04. the 342nd 173.00 year. 3-month Libor +13780bp to Oct 04. the 343rd 173.50 year. 3-month Libor +13820bp to Oct 04. the 344th 174.00 year. 3-month Libor +13860bp to Oct 04. the 345th 174.50 year. 3-month Libor +13900bp to Oct 04. the 346th 175.00 year. 3-month Libor +13940bp to Oct 04. the 347th 175.50 year. 3-month Libor +13980bp to Oct 04. the 348th 176.00 year. 3-month Libor +14020bp to Oct 04. the 349th 176.50 year. 3-month Libor +14060bp to Oct 04. the 350th 177.00 year. 3-month Libor +14100bp to Oct 04. the 351st 177.50 year. 3-month Libor +14140bp to Oct 04. the 352nd 178.00 year. 3-month Libor +14180bp to Oct 04. the 353rd 178.50 year. 3-month Libor +14220bp to Oct 04. the 354th 179.00 year. 3-month Libor +14260bp to Oct 04. the 355th 179.50 year. 3-month Libor +14300bp to Oct 04. the 356th 180.00 year. 3-month Libor +14340bp to Oct 04. the 357th 180.50 year. 3-month Libor +14380bp to Oct 04. the 358th 181.00 year. 3-month Libor +14420bp to Oct 04. the 359th 181.50 year. 3-month Libor +14460bp to Oct 04. the 360th 182.00 year. 3-month Libor +14500bp to Oct 04. the 361st 182.50 year. 3-month Libor +14540bp to Oct 04. the 362nd 183.00 year. 3-month Libor +14580bp to Oct 04. the 363rd 183.50 year. 3-month Libor +14620bp to Oct 04. the 364th 184.00 year. 3-month Libor +14660bp to Oct 04. the 365th 184.50 year. 3-month Libor +1470

Final terms, non-callable unless stated. Yield spread (over par) based on lead manager's 2 floating rate notes. R: fixed rate offer price; less shown as no offer price. Based on Australian residential mortgages originated by Paribas Mortgage Corp. Callable from 10/1/04 at par. 20% cleanup call. At 1/1/04, 2.75% 3-mth Libor +140bp to Oct 04, then +30bp. At 1/1/04, 5.5% 3-mth Libor +150bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +160bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +170bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +180bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +190bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +200bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +210bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +220bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +230bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +240bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +250bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +260bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +270bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +280bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +290bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +300bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +310bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +320bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +330bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +340bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +350bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +360bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +370bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +380bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +390bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +400bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +410bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +420bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +430bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +440bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +450bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +460bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +470bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +480bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +490bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +500bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +510bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +520bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +530bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +540bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +550bp to Oct 04, then +30bp. At 1/1/04, 6.75% 3-mth Libor +560bp to Oct 04, then +30bp. 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# Israel to lift objections to US moves

## CURRENCIES & MONEY

# Yen tumbles after Japanese rate cut

### MARKETS REPORT

By Richard Adams

The Bank of Japan's decision to print its way out of trouble sent the yen tumbling against the US dollar yesterday.

The yen shed around three per cent of its value during European trading hours, after the central bank's announcement. It cut its target for the overnight money market interest rate - the interbank lending rate - from 0.50 per cent to around 0.25 per cent. The discount rate at which the central bank lends - was unchanged at 0.50 per cent.

The bank also said it will supply liquidity to the money markets as needed, effectively expanding the money supply, regardless of the call rate.

But analysts in Europe questioned whether the move will give much aid to the stricken economy, with

its falling domestic demand and weak stock market. Rather than help domestic lending, the extra liquidity may simply be used to buy government bonds, or "exported" offshore.

"Flooding the Japanese economy with liquidity at the present time will tend to be extremely negative. Some reaction has been seen, more is to follow," said Tony Norfield at ABN-Amro in London.

The US dollar gained 1/2 per cent by the end of trading in London, to finish at ¥137.1. Sterling strengthened by 1/2 per cent, its highest rate against the yen for a week.

Against the D-Mark, unencumbered by the rate cut talk surrounding the dollar, the gain was even stronger.

### POUND IN NEW YORK

	Sept 9	Sept 8	Sept 7
1 pound	1.6500	1.6500	1.6500
100 yen	1.6500	1.6500	1.6500
1 mark	1.6500	1.6500	1.6500
1 franc	1.6500	1.6500	1.6500

The D-Mark appreciated by 4 per cent and 1/2 to ¥75.51.

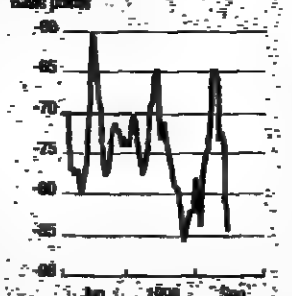
Currencies in Asia, or linked to Japan, were weaker after the move. The US dollar was also influenced by the pending report on President Clinton, which is due to be presented to Congress next week.

The Bank of Japan hasn't quite adopted Paul Krugman's plan to stimulate the economy by throwing money out of helicopters over Tokyo. But its decision to pump liquidity into the money markets may be the next best thing.

But will it work? "While this move is a sensible step in an appropriate direction, the problem remains that the real economy lacks an adequate home for any extra liquidity," said Brian Martin at Barclays Capital.

"In basic terms, the Bank of Japan is promising to print a whole lot of yen that has very little utility within

Short sterling spread: 100 yen/sterling



Japan and that will be therefore be used to buy foreign bonds.

Does the liquidity policy shift mean the Japanese government is more or less likely to intervene to support the yen? In recent months the threat of intervention has been the currency's only solid prop.

Some think the move makes intervention less

likely, since successful intervention needs to be accompanied by expectations of tighter monetary policy.

But Paul Chertkow at Tokyo-Mitsubishi thinks otherwise. A rapid fall in the yen would undermine the Japanese equity market and negate any positive impact from the loosening in the call money rate. "For this reason we believe that the risk of intervention by the Bank of Japan has increased," Mr Chertkow said.

The Japanese rate cut may speed up similar moves by the Federal Reserve in the US. The expansion in the

supply of yen will keep the dollar strong, representing a further tightening of US monetary conditions. "It is quite clear that [Japan's] action requires an immediate response from the Fed if a substantial dollar appreciation is to be mitigated and if the risk of a total Wall Street collapse is to be diminished," said Mr Martin.

The Bank of England announces its decision on interest rates today at noon. Looking at the money markets, the December 98 and December 99 short sterling spread may be over-optimistic about the chances of near-term UK repo rate reduction.

If the Bank's monetary policy committee - as widely expected - leaves rates on hold, the spread could widen further below its current minus 80 basis points, as the market anticipates more aggressive cuts by the committee next year.

### OTHER CURRENCIES

Currency	Sept 9	Sept 8	Sept 7
Swiss franc	1.6500	1.6500	1.6500
Italian lira	1.6500	1.6500	1.6500
Spanish peseta	1.6500	1.6500	1.6500
Portuguese escudo	1.6500	1.6500	1.6500
Belgian franc	1.6500	1.6500	1.6500

### POUND SPOT FORWARD AGAINST THE POUND

Month	Sept 9	Sept 8	Sept 7
1 month	1.6500	1.6500	1.6500
3 months	1.6500	1.6500	1.6500
6 months	1.6500	1.6500	1.6500
12 months	1.6500	1.6500	1.6500

### DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Month	Sept 9	Sept 8	Sept 7
1 month	1.6500	1.6500	1.6500
3 months	1.6500	1.6500	1.6500
6 months	1.6500	1.6500	1.6500
12 months	1.6500	1.6500	1.6500

### CROSS RATES AND DERIVATIVES

Currency	Sept 9	Sept 8	Sept 7
100 yen	1.6500	1.6500	1.6500
100 marks	1.6500	1.6500	1.6500
100 francs	1.6500	1.6500	1.6500
100 lire	1.6500	1.6500	1.6500

### UK INTEREST RATES

Rate	Sept 9	Sept 8	Sept 7
1 month	1.6500	1.6500	1.6500
3 months	1.6500	1.6500	1.6500
6 months	1.6500	1.6500	1.6500
12 months	1.6500	1.6500	1.6500

### EMU CURRENCY UNIT RATES

Currency	Sept 9	Sept 8	Sept 7
100 yen	1.6500	1.6500	1.6500
100 marks	1.6500	1.6500	1.6500
100 francs	1.6500	1.6500	1.6500
100 lire	1.6500	1.6500	1.6500

### EURO CURRENCY UNIT RATES

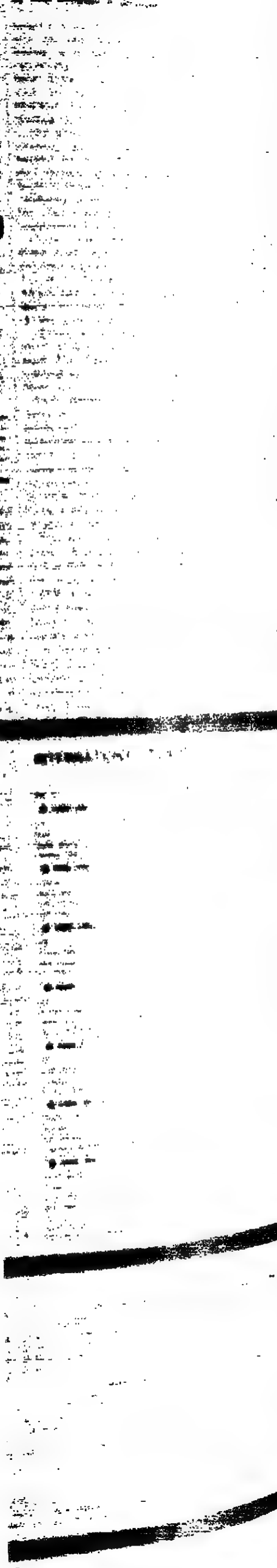
Currency	Sept 9	Sept 8	Sept 7
100 yen	1.6500	1.6500	1.6500
100 marks	1.6500	1.6500	1.6500
100 francs	1.6500	1.6500	1.6500
100 lire	1.6500	1.6500	1.6500

### BASE LENDING RATES

Bank	Sept 9	Sept 8	Sept 7
100 yen	1.6500	1.6500	1.6500
100 marks	1.6500	1.6500	1.6500
100 francs	1.6500	1.6500	1.6500
100 lire	1.6500	1.6500	1.6500

### EURO CURRENCY UNIT RATES

Currency	Sept 9	Sept 8	Sept 7
100 yen	1.6500	1.6500	1.6500
100 marks	1.6500	1.6500	1.6500
100 francs	1.6500	1.6500	1.6500
100 lire	1.6500	1.6500	1.6500



### Consulting Services for Financial and Corporate Restructuring Assistance Project

The Korean Financial Supervisory Commission (KFS) has received a loan from the International Bank for Reconstruction and Development (IBRD), and intends to apply for the proceeds of this loan to payments under the contract for Financial Institution Supervisory Strengthening.

### Consulting Services for Financial and Corporate Restructuring Assistance Project

The services include technical assistance for enhancement of the overall financial sector supervisory process and procedures. The financial sector supervisory process strengthening includes: banking, insurance, securities, and other non-bank financial institutions. The areas of focus include the entire examination process at financial institutions, office supervision, enforcement process, audit, and database development.

### Consulting Services for Financial and Corporate Restructuring Assistance Project

The FSC now invites eligible consultants with appropriate international experience to indicate their interest in providing the services. Interested consultants must provide information indicating their qualifications to perform the services, including: description of similar assignments, experience in similar conditions, availability of appropriate staff, and so on. Consultants must also provide a copy of their curriculum vitae and a list of references.

### Consulting Services for Financial and Corporate Restructuring Assistance Project

Interested consultants must obtain further information at the address below from 09:00 to 18:00. Expressions of interest must be delivered by September 24, 1998. Please note: This is not a request for proposals.

### Consulting Services for Financial and Corporate Restructuring Assistance Project

Supervisory Regulations Improvement Team  
Financial Supervisory Commission  
27 Yoda-Dong, Yongsong-Gu, Seoul 150-800, Korea  
Tel: (82-2) 777-5874 Fax: (82-2) 777-5887 E-mail: gsc@kfs.or.kr

### WORLD INTEREST RATES

Currency	Sept 9	Sept 8	Sept 7
100 yen	1.6500	1.6500	1.6500
100 marks	1.6500	1.6500	1.6500
100 francs	1.6500	1.6500	1.6500
100 lire	1.6500	1.6500	1.6500

### EURO CURRENCY INTEREST RATES

Currency	Sept 9	Sept 8	Sept 7
100 yen	1.6500	1.6500	1.6500
100 marks	1.6500	1.6500	1.6500
100 francs	1.6500	1.6500	1.6500
100 lire	1.6500	1.6500	1.6500

### THREE MONTH STERLING FUTURES (LIVERPOOL) 1000 points of 100%

Month	Sept 9	Sept 8	Sept 7
100 yen	1.6500	1.6500	1.6500
100 marks	1.6500	1.6500	1.6500
100 francs	1.6500	1.6500	1.6500
100 lire	1.6500	1.6500	1.6500

### THREE MONTH EURO DOLLAR FUTURES (LIVERPOOL) 1000 points of 100%

Month	Sept 9	Sept 8	Sept 7
100 yen	1.6500	1.6500	1.6500
100 marks	1.6500	1.6500	1.6500
100 francs	1.6500	1.6500	1.6500
100 lire	1.6500	1.6500	1.6500

### THREE MONTH EURO DOLLAR FUTURES (LIVERPOOL) 1000 points of 100%

Month	Sept 9	Sept 8	Sept 7
100 yen	1.6500	1.6500	1.6500
100 marks	1.6500	1.6500	1.6500
100 francs	1.6500	1.6500	1.6500
100 lire	1.6500	1.6500	1.6500

### THREE MONTH EURO DOLLAR FUTURES (LIVERPOOL) 1000 points of 100%

Month	Sept 9	Sept 8	Sept 7
100 yen	1.6500	1.6500	1.6500
100 marks	1.6500	1.6500	1.6500
100 francs	1.6500	1.6500	1.6500
100 lire	1.6500	1.6500	1.6500

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Month	Sept 9	Sept 8	Sept 7
100 yen	1.6500	1.6500	1.6500
100 marks	1.6500	1.6500	1.6500
100 francs	1.6500	1.6500	1.6500
100 lire	1.6500	1.6500	1.6500

### THREE MONTH EURO DOLLAR FUTURES (LIVERPOOL) 1000 points of 100%

Month	Sept 9	Sept 8	Sept 7
100 yen	1.6500	1.6500	1.6500
100 marks	1.6500	1.6500	1.6500
100 francs	1.6500	1.6500	1.6500
100 lire	1.6500	1.6500	1.6500

### THREE MONTH EURO DOLLAR FUTURES (LIVERPOOL) 1000 points of 100%

Month	Sept 9	Sept 8	Sept 7
100 yen	1.6500	1.6500	1.6500
100 marks	1.6500	1.6500	1.6500
100 francs	1.6500	1.6500	1.6500
100 lire	1.6500	1.6500	1.6500

### THREE MONTH EURO DOLLAR FUTURES (LIVERPOOL) 1000 points of 100%

Month	Sept 9	Sept 8	Sept 7
100 yen	1.6500	1.6500	1.6500
100 marks	1.6500	1.6500	1.6500
100 francs	1.6500	1.6500	1.6500
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### THREE MONTH EURO DOLLAR FUTURES (LIVERPOOL) 1000 points of 100%

Month	Sept 9	Sept 8	Sept 7
100 yen	1.6500	1.6500	1.6500
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### Legrand

#### Half-year results

The board of directors, chaired by Mr. François Grappotte, met to review consolidated results for the first half of 1998.

Indicator	1st half 1998	1st half 1997	% change
Net sales	7,327	6,452	+ 14 %
Operating income	1,192	993	+ 20 %
Operating margin	16.3 %	15.4 %	+ 0.9 %
Net income	629	517	+ 22 %
Net margin	8.6 %	8.0 %	+ 0.6 %

Strong sales growth resulted from a combination of factors:

- a healthy rise in business in France and, even more, on international markets, as product lines launched in the past two years gathered momentum. At constant structure and exchange rates, sales rose 6.4 % in the first half of 1998
- consolidation of recently acquired companies, in particular the emergency lighting division of URA Sait and US company Ortronics, specialized in providing hardware for VDI networks.

A further steep rise in profits and margins in the first half of the year testifies to Legrand's ability to successfully market its product range.

Full year, assuming no major upheavals in business or exchange rates on its main markets, the group expects to report a marked rise in profits.

FINANCIAL INFORMATION: Tel: (33) 1 49 72 53 53

Internet: www.legrandelectric.com

### HSBC GLOBAL INVESTMENT FUNDS SICAV



## COMMODITIES &amp; AGRICULTURE

METALS ANALYSTS SAY CONSUMPTION HAS PROVED RESILIENT DESPITE ASIAN ECONOMIC TURMOIL

## Link 'suspended' between demand and prices

By Kenneth Gooding,  
Mining Correspondent

Demand for the heavily traded base metals - aluminium, copper, lead, nickel, tin and zinc - is holding up well, even though it is a year since the Asian economic turmoil began to take its toll.

This means the traditional relationship between demand and prices has been suspended, points out Tony Warwick-Ching, analyst at Flemings Global Mining Group.

"Analyst folklore is that prices for soft commodities are driven by supply and

those for metals by demand," he says in Flemings' Metal Monitor.

The present picture for base metals demand, therefore, does square well with some of the lowest prices for many years.

He points out that in the first six or seven months of this year demand setbacks for base metals have been "modest". Aluminium off-take is down little more than 2 per cent on last year, even though consumer spending and the construction industry have been badly affected in east Asia.

Copper consumption is actually ahead of last year

while lead's is about level, mainly because east Asia is far less important to lead than the US or Europe.

Zinc's downturn of 1.5 per cent "seems modest in the context of the decimation of the construction sector in the Far East". Western world tin demand "seems to have held up very well so far, reflecting its use in recession resistant areas like food packaging".

Nickel consumption is down less than 1 per cent, although Mr Warwick-Ching says: "This does belie a significant downturn in the stainless steel sector in the second quarter."

## Western world non-ferrous metals consumption

	First half 1997	First half 1998	% change
Aluminium	11,170	10,885	-2.0
Copper	6,558	6,571	0.2
Lead	2,580	2,580	0.0
Nickel	470	467	-0.7
Tin	98	97	-1.0
Zinc	3,245	3,195	-1.5

Source: CIL, BHP, PGM

Other analysts also express concern about problems for the stainless steel industry, by far the biggest consumer of nickel.

Alan Williamson and Andrew Carter, analysts at Deutsche Bank, in their

Metal Window newsletter say: "The continued deterioration of the stainless steel market and the need for production cuts continue to cast a shadow over the outlook for primary nickel demand." However, some analysts

are more bullish about copper than they were at the beginning of this year.

Bloomsbury Minerals Economics suggests demand for copper might increase by 2 to 3 per cent this year, compared with 1997, because of a shortage of scrap.

In its latest Copper Briefing Service, Bloomsbury says copper's consumption growth rate has replaced stock levels as the main driver of prices.

Flemings' Mr Warwick-Ching says metals demand could fall as time goes by, but it still has some way to go even to approach previous downturns, and is "miles

away from the consumption disasters that followed the oil shocks of the 1970s, when percentage falls in demand reached double digits".

He suggests prices have been ignoring relatively good demand, reacting instead to two factors. "The main focus of concern has been a very bearish ultimate outcome for the international economy, with the knock-on effects of the Asian crisis continuing to build as the months go by."

"The secondary concern has been a surge of new supply in several metals. On the first concern the price verdict has been right - so far."

## Pakistan cotton hit by hot August

By Farhan Bokhari in Multan

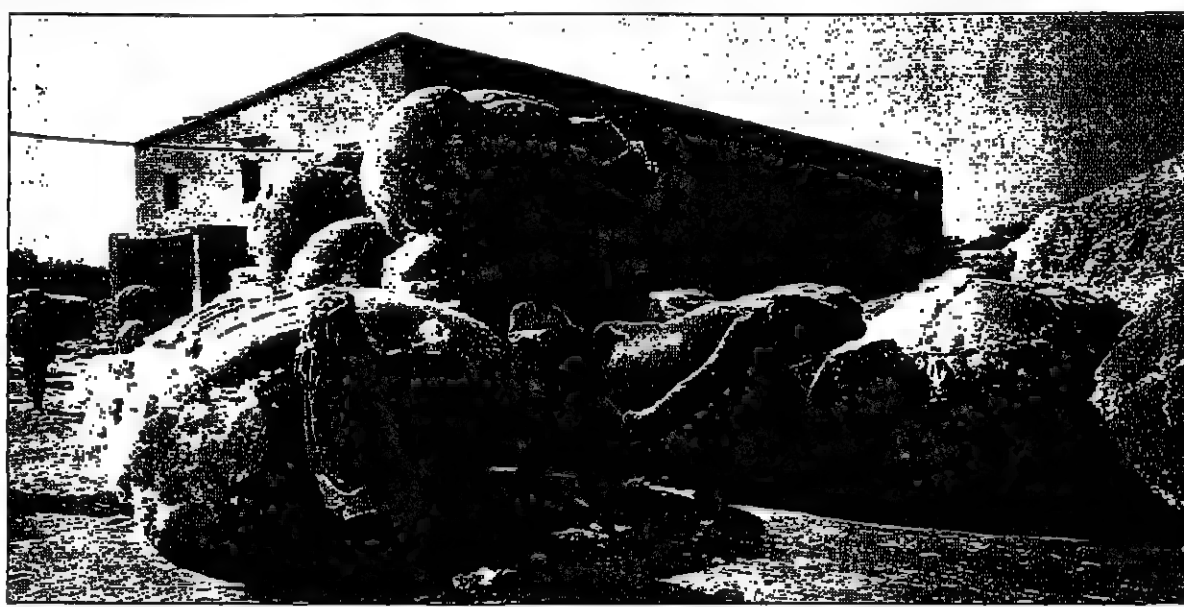
Unusually high night temperatures in August have hit Pakistan's cotton crop, although other factors will compensate for the possibility of large crop damage, agricultural scientists say.

However, the finding has again brought the country's environmental conditions and their implications for its main crops into focus.

Reports of temperatures an average 2 degrees Celsius higher in August, compared with last year, are also likely to support environmental activists, many of whom say not enough is being done to stop degradation.

"In some ways, the weather has been supportive this year, but August has certainly been a damaging month for cotton due to higher temperatures," said Jehangir Tariq, chairman of the Punjab provincial task force on agriculture.

Tanveer Ahmed Javed, a senior scientist at the coun-



Pakistani farmers are culling for the swift introduction of fresh cotton varieties that are resistant to changing weather conditions

try's premier cotton research institute, said: "Higher night temperatures affected some boll formation in cotton, but drier weather on the whole helped. This suggests that we are going through environmental changes."

However, no one can agree on the reasons for the unusual temperatures, or what will happen in future.

Mr Javed said such "abnormal" temperature variations are temporary but another scientist warned

that the weather was a long-term problem that could hit future output.

In the early to mid-1990s, some scientists thought the growing environmental hazards that affected crops such as cotton were caused by fires at the Kuwait oil wells during the 1990 Gulf war.

One suggested a three-year cotton crop failure from 1992 to 1994 was the result of the fall-out from the Gulf war, which also affected other nearby countries.

However, analysts warn that the higher temperatures are evidence of the environmental breakdown caused by large-scale deforestation, especially in the mountainous areas of northern Pakistan and parts of Pakistan-administered Kashmir.

The government says about 5 per cent of the country's soil is under forests, although independent analysts disagree. They also view the official claim that more than 2bn trees have

been planted in the past 10 years with scepticism.

The higher temperatures have prompted demands for fresh research into issues related to the cotton crop.

"Many of the varieties given to farmers are not resistant to heat," said Siddique Akbar Bokhari, a senior farmer.

One suggested a three-year cotton crop failure from 1992 to 1994 was the result of the fall-out from the Gulf war, which also affected other nearby countries.

## Copper tops \$1,700 a tonne

## MARKETS REPORT

By Kenneth Gooding, Robert  
Gardner and Paul Solman

On the London Metal Exchange copper pushed through an important barrier at \$1,700 a tonne, due, dealers said, to technical buying and rumours that a supply squeeze would develop in November.

A rise of 3,500 tonnes, or 1 per cent, in LME copper stocks to 363,276 tonnes was brushed aside and three-month copper ended the day up \$18.25 a tonne, or 1 per cent, at \$1,708.50.

According to the International Copper Study Group's latest report, refined copper output rose 3.2 per cent to 8,873 tonnes in the first half, compared with the same months of 1997, while consumption increased by 3.2 per cent to 8,784 tonnes.

Crude oil prices remained range-bound before publication of the latest inventory data from the US.

Brent Blend for October delivery was quoted at \$13.11 a barrel in late trading on

London's International Petroleum Exchange, up 12 cents on Tuesday's close, although the contract had slipped to \$12.85 earlier.

Although there are growing signs that the Organisation of Petroleum Exporting Countries is moving towards full implementation of agreed production cuts, traders said the mood in the oil markets remained wary.

On Tuesday, Erwin Arrieta, Venezuela's energy minister, said his country was within two weeks of being in full compliance. Yesterday a Reuters survey suggested Opec as a whole had moved to about 90 per cent compliance in August, up from 68 per cent in July.

White sugar prices fell to a 10-year low of \$218 a tonne on the London International Financial Futures Exchange after the European Union sold 107,300 tonnes.

EU exports stand at 481,060 tonnes compared with 350,000 tonnes a year ago. In late trading, October sugar was \$219.30 against Tuesday's close of \$222.30.

## Thailand to cut rubber output

By Paul Solman

Thailand said yesterday it would cut natural rubber production by 10 per cent to help support sagging prices.

The move by the world's largest natural rubber exporter was announced at the end of three-day talks between the world's leading producers in Kuala Lumpur. However, one industry insider said Thailand's move was unlikely to be effective unless Malaysia and Indonesia, the other top producers, followed suit.

"Ten per cent of Thailand's production is about 200,000 tonnes and the price will move up a little," he said. "But it's unlikely to be enough on its own."

Rubber prices have fallen 30 per cent in dollar terms in the past year as the Asian crisis has reduced demand. This week's meeting of the Association of Natural Rubber Producing Countries was intended to find ways to support the market.

The organisation includes Thailand, Malaysia, Indonesia, Singapore, Sri Lanka, India, Papua New Guinea and Vietnam, but Indonesia and Vietnam did not send representatives to the Kuala Lumpur meeting.

In particular, the association discussed plans that would effectively replace the International Natural Rubber Organisation. Inro is responsible for buying rubber stocks to support prices but has been heavily criticised for failing to act.

Malaysia has said it will withdraw from Inro, though the cabinet has yet to approve the move.

Although the Kuala Lumpur meeting was private, the rubber producers' intentions are expected to emerge in the next few days. Inro, which includes rubber consumers as well as producers, holds its own meeting next month.

## COMMODITIES PRICES

## BASE METALS

LONDON METAL EXCHANGE  
(Prices from Associated Metals Trading  
in Aluminium, 50% purity, \$ per tonne)

Grade	Sett	Day's	Open
Copper	1364.45	1367.85	
Previous	1360.91	1413.5-1418	
High/Low	1407/1379		
Alm Official	1370.5-1371.5	1366-1368	
Alm Close	1362.44	1362.44	
Open Int.	234.478		
Total daily turnover	86,773		

IN ALUMINIUM ALLOY 5% per tonne

Grade	Sett	Day's	Open
Copper	1170-80	1168-80	
Previous	1168-80	1213-118	
High/Low	1200/1168		
Alm Official	1160-75	1165-200	
Alm Close	1160-75	1165-200	
Open Int.	6,338		
Total daily turnover	1,591		

IN LEAD 5% per tonne

Grade	Sett	Day's	Open
Copper	533-4	541.5-42.0	
Previous	533-4	541-2	
High/Low	538-4.5	541-2	
Alm Official	538-4.5	541-2	
Alm Close	538-4.5	541-2	
Open Int.	38,411		
Total daily turnover	5,033		

IN NICKEL 5% per tonne

Grade	Sett	Day's	Open
Copper	4340-50	4300-50	
Previous	4300-50	4300-50	
High/Low	4300-50	4300-50	
Alm Official	4300-50	4300-50	
Alm Close	4300-50	4300-50	
Open Int.	61,205		
Total daily turnover	21,458		

IN TIN 5% per tonne

Grade	Sett	Day's	Open
Copper	4480-80	4380-85	
Previous	4470-80	4370-85	
High/Low	4470-80	4370-85	
Alm Official	4470-80	4370-85	
Alm Close	4470-80	4370-85	
Open Int.	14,570		
Total daily turnover	2,592		

IN ZINC, special high grade 5% per tonne

Grade	Sett	Day's	Open
Copper	1018-19	1041-42	
Previous	1023-44	1046-47	
High/Low	1023-44	1046-47	
Alm Official	1023-44	1046-47	
Alm Close	1023-44	1046-47	
Open Int.	86,574		
Total daily turnover	18,549		

IN COPPER, grade A 5% per tonne

Grade	Sett	Day's	Open
Copper	1695-99	1717-18	
Previous	1697.5-98.5	1708-99	
High/Low	1717/1697		
Alm Official	1697-77	1708-99	
Alm Close	1697-77	1708-99	
Open Int.	167,577		
Total daily turnover	80,000		

IN LEAD 5% per tonne

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Copper	1695-99	1717-18	
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## LONDON STOCK EXCHANGE

## Small stocks grab the limelight as leaders suffer

## MARKET REPORT

By Steve Thompson,  
UK Stock Market Editor

London's equity market continued to struggle yesterday with the leading stocks never really able to make much headway against a background of persistent worries about the impact of the Russian political and financial crises.

But the second-liners and small-caps managed to cling on to relatively modest gains, with some dealers reporting a switch out of the front-line issues into the

smaller stocks, which some felt offered better value.

The shift of support from the leaders to the small-caps came as no surprise to some brokers. Richard Grossman at stockbroker Redmayne Bentley said: "Clients are happier to be buying the smaller companies on the basis that the next shift in domestic interest rates is likely to be down rather than up with all the obvious benefits."

He said the leaders would continue to be affected by the impact of international problems affecting emerging markets, including Russia.

There were also hints yesterday of more switching from equities to bonds, the so-called "flight to safety", which has been a feature of global markets since the Russian crisis first blew up. Any further evidence that the emerging market malaise has severely infected Latin America is expected to cause further problems for Wall Street.

There were no such fears on Wall Street on Tuesday, however, when the Dow Jones Industrial Average posted its biggest ever points gain in a single session, regaining the 8,000 level in

doing so. But Wall Street ran into plenty of selling squalls yesterday, posting a three-figure decline not long after London closed.

The FTSE 100 index fell sharply at the start of the session, burdened by weakness in the far eastern markets where Hong Kong dropped 3.5 per cent and Tokyo around 1 per cent. The latter drop came before the surprise reduction in short-term interest rates by the Japanese authorities.

And there were wide-spread hopes across markets that the move by the Japanese authorities could be the

first of an orchestrated series of interest rate cuts across global economies, continuing, so the story went at the time, with a reduction in UK interest rates.

But the hopes of a UK reduction did not last long, with the FTSE 100, which fell 97 points, rallying to post a 16-point gain before dipping back, rallying in the early afternoon and then slipping off again.

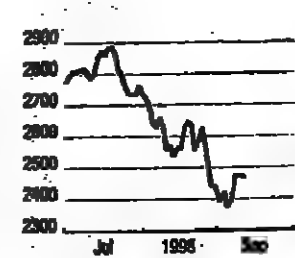
At the close, the index was 32.9 lower at 5,311.2, having swung in a 120.7-point arc. The FTSE 250 index settled 7.2 ahead at 4,811.7, well off

its best level of the day of 4,822.6, but a good performance nevertheless. The FTSE SmallCap finished 10.6 higher at 2,112.8, having hit a session high of 2,112.8.

The expected bid by BskyB for Manchester United, regarded by many people as Britain's premier football club, duly appeared, but the stock price did not match the bid level as market operators feared a reference to the Monopolies and Mergers Commission.

Turnover in equities was 885m shares, of which 58 per cent was in non-Footsie stocks.

## FTSE All-Share Index

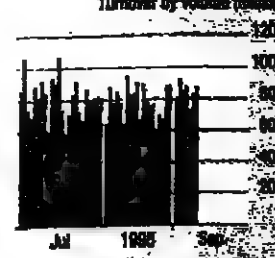


Source: FTSE International

Index and ratios	Value	Change
FTSE 100	5311.2	-97.0
FTSE 250	4811.7	+7.2
FTSE SmallCap	2112.8	+10.6
FTSE All-Share	2464.8	-10.8
FTSE All-Share yield	3.20	0.18

Best performing sectors	Value	Change
1. Beverages, Food & Ag.	-2.5	
2. Support Services	-2.2	
3. Telecom	-2.1	
4. Engineering, Vehicles	-1.6	
5. Paper, Poly & Printing	-1.2	

## Equity shares traded



Source: FTSE International

World performing sectors	Value	Change
1. Other Financial	-2.7	
2. Building Materials	-1.7	
3. Insurance	-1.6	
4. Telecommunications	-1.5	
5. Chemicals	-1.3	

## Lucas to relocate to US

## COMING REPORT

By Joel Kitzes and Martin Riles

Hard-nosed analysts, not known for their sentimentality, were both angry and saddened by the news that one of the market's long standing constituents will soon relinquish its primary London listing.

Anglo-US group LucasVarity said it proposed to change its domicile to the United States by the end of this year, confirming fears of a move first raised shortly after the merger of Lucas Industries and Varity Corporation in 1996. The group sought to allay such fears early last year.

As Lucas Industries, the company replaced British Leyland Motors in the FTSE 30 Share Index in April 1976, and one year-stained specialist emerging from a tense analysts' meeting with the company said simply: "It's the end of an era and it's very sad. We feared this may happen, but not so quickly."

Another engineering specialist said: "Lord Simpson [former chief executive] who negotiated this merger at no premium has a lot to answer for. It has turned out to be a reverse takeover and now that the Americans are homesick they have decided

to go home. Their crowning glory will be the removal of the Lucas name for the company to become Varity Inc."

News of the change to the company's listing came as the group announced second-quarter figures in line with analysts' expectations. LucasVarity also announced plans to repurchase up to 20 per cent of its own shares over an 18-month period.

The stock had a volatile session yesterday. The announcement of the move to the US saw the shares fall to the day's low of 190p as UK funds bailed out.

A closer look at the figures, however, along with

vague bid talk, prompted a recovery that helped the shares close 2 1/2 up at 210 1/2p.

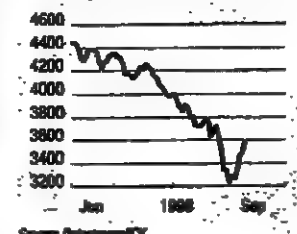
Turnover of 31m made it the day's busiest stock. Dealers reported US interest as the session drew to a close.

Confirmation by Manchester United that it had agreed a \$223.5m recommended bid from satellite broadcaster BskyB saw shares in the football club appreciate 15 1/2p to 215 1/2p, or 8 per cent.

Although a counterbid could not be ruled out, analysts said it was increasingly unlikely. One said: "It would be very difficult for a rival to come in at this stage given the backing that BskyB has

## Best and worst performing FTSE sectors

Beverages, Food &amp; Ag.



Source: FTSE International

Best performing sectors	Value	Change
1. Beverages, Food & Ag.	-2.5	
2. Support Services	-2.2	
3. Telecom	-2.1	
4. Engineering, Vehicles	-1.6	
5. Paper, Poly & Printing	-1.2	

already has from the Manchester United board."

However, there were some analysts who continued to believe that the bid could be referred to the regulatory authorities, and pointed to the discount to the 240p share offer at which the Manchester United shares closed.

The possibility of a bidding war for the small video publisher VCI sent its shares soaring amid reports that institutional shareholders were increasingly unhappy with the offer it accepted on Tuesday from Scottish Media.

The surprise entry by Kingfisher into the fight prompted VCI shares to rise 13 to 91 1/2p, a substantial premium to the 80p-a-share cash offer from Scottish, which valued VCI at 221m. Scottish Media made the offer on Tuesday and on the same day bought 10.2m shares in the market, giving it 26.4 per cent of VCI.

Analysts said they would not be surprised if other media companies entered the fray. At yesterday's closing price, VCI shares stood at

recommendation on Scottish and Whitbread to "accumulate" shares from "neutral" in line with its stance on Baa. Scottish shares jumped 25 1/2p to 81 1/2p, while Whitbread ended the session 46p ahead at 81 1/2p. Bass gained 27 1/2p to 50 1/2p.

Dealers said Merrill had reduced its underlying growth expectations for the regional brewers.

Coats Virella was the worst performer in the FTSE 250 following poor interim figures and disappointment that the demerger of its Virella business was to be delayed. The shares were down about 16 per cent or 7 1/2p at 40 1/2p.

The group said the demerger would be delayed until "greater confidence returns to financial markets and sentiment improves in the textile and retail sectors".

Elsewhere in the MidCap index, Albright & Wilson was off 11 at 97 1/2p as the company highlighted the strength of sterling and Asian turmoil as factors in its forecast of a poor second-half performance.

Analysts were said to be knocking about £10m off their forecasts for the year, reducing them to about £50m. However, the low price of the shares prompted talk of a potential bid.

Caradon was down 13 1/2p at 135 1/2p following an interim pre-tax profits fall. Although the results were in line with some expectations, they came in at the bottom end of forecasts and there was some scepticism over the planned sale of some of its businesses.

Investor appetite for information technology stocks was apparent as Logica gained 14 1/2p to £18.25, amid a series of upbeat comments from analysts following strong results. Analysts were said to be adding nearly 5 per cent to full-year forecasts, taking them to about £56m.

## FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LFFP) £10 per full index point

Open	Settle	Change	High	Low	Vol	Open Int
5342.0	5311.0	-22.0	5373.0	5250.0	41710	17807
5415.0	5380.0	-35.0	5446.0	5350.0	44720	
5452.0	5408.0	-44.0	5473.0	5450.0	552	1397

FTSE 250 INDEX FUTURES (LFFP) £10 per full index point

Open	Settle	Change	High	Low	Vol	Open Int
4812.6	4811.7	-0.9	4812.0	4812.0	3	1217
4812.6	4811.7	-0.9	4812.0	4812.0	0	944

FTSE 100 INDEX OPTION (LFFP) £2500 £10 per full index point

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THE NEW YORK PUBLIC LIBRARY

## NEW YORK STOCK EXCHANGE PRICES

THE NEW YORK STORE



هكذا من الاصل

Year	Expenditures (thousands of dollars)
1995	1075
1996	1095
1997	1080
1998	1105
1999	1120
2000	1105

Price	Change	High
75.9	-41.0	2649.9
10.5	-41.0	2600.5
10.0	-165.0	5135.5

## THE NASDAQ STOCK MARKET

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# STOCK MARKETS

## Bourses uninspired by Wall Street rally

### WORLD OVERVIEW

Wall Street's record one-day points gain on Tuesday did not spark the kind of follow-up buying in world markets that many investors might have expected, writes Philip Cogan.

Part of the reason may be that the rest of the world has been made cautious by the US market's volatility and has seen recent rallies peter out.

Richard Lake, technical

analyst at Brewin Dolphin Bell Lawrie, said that the Dow Jones Industrial Average had been heavily oversold and so a bounce was not surprising. But even a 380-point gain left the benchmark well below its 50-day and 200-day moving average and he remains bearish.

Some of the market's recent concerns returned to haunt investors. One old favourite is the fragile health of the Japanese financial system and yesterday

the markets were beset by rumours of substantial derivatives losses at Fuji Bank.

The talk was dismissed as "totally groundless" by the bank but its shares were badly hit, and the overall market was also worried by a Japanese newspaper report suggesting that the leading 19 Japanese banks had potential derivatives losses of ¥24,000bn.

Investor focus was kept on Japan by the Bank of

Japan's surprise decision to reduce the overnight call rate to 0.25 per cent, which caused a sharp drop in the yen against the dollar.

This easing of monetary policy was not part of a coordinated G7 plan, according to the Japanese authorities. And the continued weakness of the Japanese economy was highlighted by a drop in corporate capital spending in the second quarter.

Another returning worry yesterday was the global

banking sector's exposure to emerging market debt. Shares in Credit Suisse Group fell sharply after the Swiss bank revealed that its total exposure to Russia and Brazil was \$2.9bn.

The leading Asian markets - Tokyo and Hong Kong - and European bourses - Frankfurt and Paris - all lost ground, bringing at least a temporary halt to the mini-rally which had begun on Friday.

James Montier, global

strategist at BT Alex Brown, warned: "The crisis in emerging markets is far from over. Investors must not become too sanguine about the risks emerging markets pose in an increasingly integrated world."

He added: "There will be better opportunities to buy global equities. Don't rush to catch the falling knife. It is safest to wait until it is embedded in the ground and then pick it up by the handle."

### EMERGING MARKET FOCUS

## Bogotá forced to defend peso

Turmoil in the world's financial markets and a set of negative internal factors have severely depressed Colombian equities.

Since Russia devalued the rouble, Bogotá's benchmark IBB index, has fallen 30 per cent in dollar terms and is 51 per cent down this year, having been bludgeoned by high interest rates, an alarming fiscal deficit and presidential-election jitters.

In early trading yesterday, the IBB was up 1.82 at 808.91. Some traders now believe the market has touched bottom. However, thoughts of recovery may be premature.

In last week's surprise devaluation, the central bank shifted the exchange rate band 9 per cent, making Colombia the first Latin American country to react to events in Russia. That left many observers with the feeling the move was not only premature but lame.

"The peso is still overvalued, and the market knows it," said Sergio Calderón, a stock market analyst.

While the central bank said it devalued to protect its international reserves from speculation against the peso, the measure has so far failed to dampen the demand for dollars. Last week, selling pressure forced the bank to spend \$80m a day to defend the peso's new limit.

Reserves are now down to an estimated \$4.5bn compared with almost \$10bn at the start of the year.

The frenetic speculation has driven the bank back to restrictive policies. On Monday, it began reducing the sale of its repurchase agreements or "repos" - a mechanism through which the bank controls liquidity to the financial system.

With the central bank vowing to defend the new band even at the cost of rising interest rates, investors are bailing out of the stock markets once again in search of a haven in fixed-income instruments.



Source: Bloomberg

## Dow dives on impeachment speculation

### AMERICAS

US shares fell steeply by midday with the Dow Jones Industrial Average down more than 100 points at one stage as investors split their focus between the latest corporate results and the intense speculation surrounding President Bill Clinton, writes John Labate in New York.

Procter & Gamble, the consumer products maker, surprised analysts with a shake-up of its leadership plus scaled-back earnings estimates. P&G, a Dow stock, fell 6.2 per cent to \$74 1/4 on the news.

Just as weak was retailer Sears, which lost \$3 1/4, or more than 6 per cent to \$47 1/4 after Merrill Lynch lowered its near-term rating.

The morning sell-off gathered momentum during a press conference given by members of the House of Representatives on the investigation surrounding President Clinton. The growing threat of impeachment proceedings came amid uncertainties about corporate profits, both of which worked to dampen sentiment.

"The biggest fear is the fear of the unknown," said Arthur Hogan, chief market analyst at Jefferies & Co. in Boston. "What the market shares is a vacuum of information."

By early afternoon the Dow was off its lows, down 90.82 or 1.1 per cent to 7,980.16, while the broader Standard & Poor's 500 was

off 10.10 to 1,013.36. The Nasdaq composite, which is weighted in technology issues, fell 13.16 to 1,646.70.

Corporate and political uncertainties overshadowed a rally in US Treasuries after the Bank of Japan moved to lower its key overnight interest rate. The dollar rose sharply on the news, as did the 30-year bond, which climbed 1 1/2 to 109 1/2, yielding 5.289 per cent.

Lower bond yields did little for financial shares, which sank on new worries. Merrill Lynch was down more than 3 per cent at \$60 1/4 after the securities company reported emerging-market losses in July and August. In the banking sector, Chase Manhattan eased \$2 to \$45.

Semiconductor leader Intel rose \$1 1/2 to \$83 1/2 after Prudential Securities raised it to "strong buy".

TORONTO was lower at midsession, weighed down by precious metals issues as the US dollar strengthened. The 300 composite index slipped back \$7.17 to 5,919.8 as rumours of more political unrest in Russia were received negatively by the skittish market.

Among individual stocks, Air Canada put on 15 cents to C\$48.15 in active trade on speculation that a settlement to its week-old pilots' strike may be near.

Barrick Gold lost 35 cents to C\$25.10 in response to the weaker bullion price.

Reap Enterprises rose half a cent to 17 1/4 after RBC Dominion Securities crossed more than 1m shares.

### EUROPE

A shakeout for the banks and big falls for oil stocks sent PARIS lower in the final hour of trading. The CAC 40 index ended off 41.61 at 3,763.13 after touching a session best of 3,822.91.

Société Générale fell FF40 to FF954 as nervousness built ahead of six-month results, announced after trading. BNP shed FF23 to FF937 and CCF tumbled FF23.20 to 7.5 per cent to FF412.

For most of the day the market had managed to keep its head above water, thanks to upbeat results, notably from Peugeot which gained FF23 to FF1,000. Renault added FF9.90 to FF276. Among motor component groups, Michelin gained FF9.50 to FF263.30.

But the bears eventually got the better of sentiment. J.P. Morgan cast a cloud over oil shares by cutting its oil-price forecasts and reducing sector earnings estimates. Elf Aquitaine came off FF31 to FF658 and Total lost FF19 to FF616.

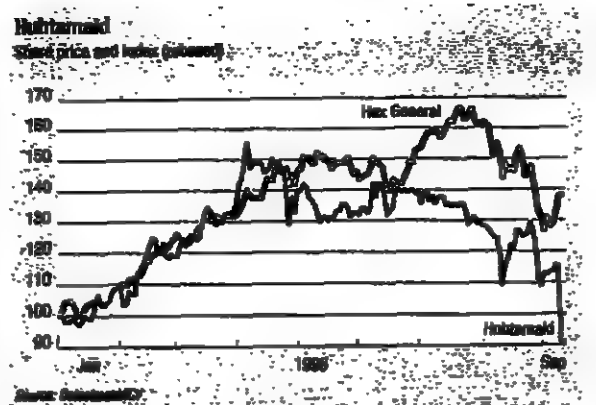
Pechiney, which has lagged the market by more than a third over the past three months, stayed dull, losing FF10.70 to FF175.3 in spite of broker optimism ahead of next week's first half results. J.P. Morgan has upgraded the shares to "buy" and stands by a target price of FF285.

Axa-UAP continued to gain ground, adding FF23 to FF618 after Paris broker Chauxreux put the stock on its recommended list. Saatchi rose FF5.80 to FF283 on strong interims and news of a share buyback.

FRANKFURT saw selling pressure accelerate late in the session after Wall Street opened weaker, and by the close of electronic trade the Xetra Dax index was 137.18 lower at 4,988.44.

Adidas tumbled DM15.30 to DM199.25 amid reports that investors were unimpressed by the start of a two-day roadshow by the sporting goods maker in London.

Dresdner Bank lost DM4 to DM72.50 after its chief executive, Bernhard Walter said



the group was not considering any link-up with insurer Allianz that would go beyond co-operation. He added that Dresdner was not interested in purchasing BFG Bank but declined to comment on whether the German group planned to buy PaluweWerber.

The remainder of the sector was spooked by reports, subsequently denied, that Japan's Fuji Bank had suffered massive derivatives losses. Deutsche Bank fell DM6.15 to DM108.35, while HypoVereinsbank lost DM10.80 to DM125.86 as the group said it planned to expand in western European markets.

AMSTERDAM moved lower, hit by weak financials and a steep slide at Hoogovens on worries about Asian steel imports. The AEX index came off 19.09 to 1,076.55 in good turnover.

Financials stumbled badly as Russian worries and Japanese derivatives scares hit sentiment. ABN Amro was off FL1.80 to FL41.50 on 9.8m shares traded and ING was down FL1.80 or 4.9 per cent to FL112.40.

A trade press story suggesting that US capacity was being cut back as a result of cheap Asian steel imports sent shivers through the metals sectors. Hoogovens took the brunt of the selling, tumbling FL5 or 6.5 per cent to FL169.

The pilots' strike at US partner Northwest Airlines hit KLM, which fell FL1.20 to FL164. Employment agency Content Beheer tumbled FL16.10 to FL53 after Goldman Sachs downgraded the

shares following Tuesday's profits warning.

Akzo Nobel continued to gain from broker optimism, adding FL1.80 to FL60.60 for a two-day gain of 6.3 per cent. Wolters Kluwer rose FL6.80 to FL369 0.80 after CSFB raised its share price target from FL360 to FL400.

ZURICH was dragged down by selling in CS Group as the gloss of good six-month figures was removed by news that CSFB, its investment banking arm, had net exposure to Brazil and Russia totalling \$3.9bn.

The SMI index tumbled 330.7 or 3.3 per cent to 6,808.1.

CS Group turned sharply lower after detailing its exposure to Russia and Brazil.

Shares had started firmer on news that first-half group profit rose 36 per cent, but

## Jo'burg and golds tumble

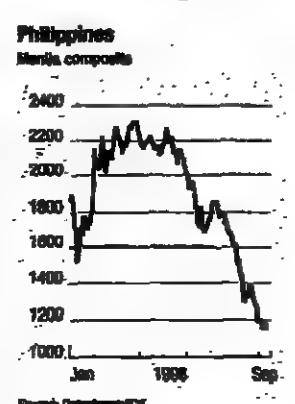
### SOUTH AFRICA

Johannesburg took a tumble in thin trade with investors reluctant to commit themselves without a lead from New York.

Golds closed 47.4 or 4.7 per cent lower at 952.1. Analysts

attributed the losses to Wall Street's surge on Tuesday which had prompted some investors abandon the safe haven provided by bullion.

The overall index fell 74.7 or 1.5 per cent to 4,975.3. Industrials lost 76.3 to 5,798.8.



Source: Bloomberg

40.09 or 11.5 per cent to 389.65 yesterday as investors targeted blue chips.

Brokers said local funds had been active and that this had sparked retail support. Telekom rose 50 cents to M\$6.10. Tenaga Nasional 48 cents to M\$3.70 and Petronas M\$1.30 to M\$6.40. Malayan Banking gained 82 cents at M\$4.18.

HONG KONG tumbled 3.5 per cent as profit-taking set in after three days of hefty gains. Short-covering, which had boosted the market over recent sessions, dried up leaving little genuine buying interest and causing a large drop in turnover.

The Hang Seng index closed on a loss of 288.80 at 7,906.45 after rising 12 per cent during the three previous days. Turnover dipped to HK\$4.7bn from Tuesday's HK\$6.4bn.

Among the big blue-chip movers, Bank of East Asia plummeted HK\$1.20 or 10.5 per cent to HK\$10.20 and HSBC Holdings fell HK\$4 or 2.5 per cent to HK\$158.

SINGAPORE was firmer with interest focused mainly on arbitrage between Malaysian shares traded over the counter, or Glob, and those on the Kuala Lumpur exchange, which pushed volume up to a very heavy 600m shares.

The Straits Times index put on 18.78 to 895.46 while the UOB-OTC index, which tracks mostly Malaysian shares, shot up 36 per cent to 60.77 at 228.97.

MANILA fell as leading stocks met with selling. PLDT, which last week announced measures to ward off hostile takeover bids, lost 20 pesos to 795 pesos. Ayala Land fell 50 cents or 8.9 per cent to 5.10 pesos.

The composite index ended the session off 34.85 or 2.9 per cent at 1,157.43.

## Cuts fail to convince

SAO PAULO slid 1.9 per cent at midsession on concern that fiscal measures announced by the government on Wednesday would not be sufficient to resolve the country's mounting economic problems.

The Bovespa index, which fell as low as 5,627 during morning trade, was 108 lower by midsession at 5,708.

On Tuesday, the government said it would cut R\$4bn from this year's budget.

BUENOS AIRES was lower, under the influence of Wall Street's choppy opening, and in a continuation of Tuesday's retreat on profit-taking. The Merval index

lost 8.93 or 2.4 per cent to 366.11.

MEXICO CITY stumbled in midday trade, dragged down by overnight weakness on Asian markets and the listless Dow. The IPC index was down \$6.18 or 1.7 per cent at 3,181.05.

The peso also came under pressure, trading between 10.34 and 10.37 pesos to the dollar on concern over the country's trade balance.

CARACAS slumped 1.7 per cent on concern over the country's reserves and its ability to defend the currency. The IBC index lost 49.51 to 2,806.68 in spite of a statement by finance minister Maritza Laguerre.

## Bank losses end Tokyo rebound

### ASIA PACIFIC

Rumours about Japanese banks' losses from derivative trading pulled TOKYO lower, breaking a three-day winning streak, writes Alexandra Harnay.

The Nikkei 225 average slid 157.95 or 1.1 per cent to 14,735.34 after a newspaper report fuelled concerns about derivatives losses at Fuji Bank and other institutions.

The market moved between 14,629.62 and 15,098.85 during a day of moderate trading.

Turnover was an estimated 417m shares. The market's momentum was negative, with declining issues exceeding winners by 788 to 354, with 141 shares unchanged.

Banking stocks lost 1.9 per cent on worries about the sector's financial health. Fuji Bank, which said its possible losses were much less than had been reported, lost ¥59 to close at ¥329, after touching a record low of ¥320. Fuji was the day's most heavily traded share.

Long Term Credit Bank of Japan, the ailing institution at the centre of financial sector's problems, gained ¥2 to

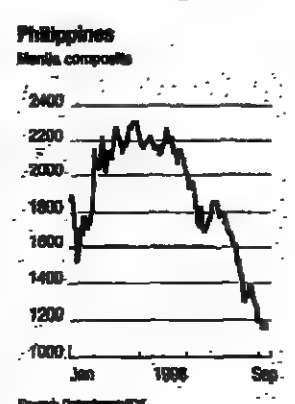
¥54. Sakura Bank slid ¥15 to ¥248, and the Bank of Tokyo-Mitsubishi lost ¥16 to ¥1,074.

Steel shares also lost ground on concerns about the sector's profitability. Nippon Steel, the industry leader, fell ¥4 to ¥221. NKK dipped ¥5 to ¥96, and Kawasaki Steel slid ¥5 to ¥185. The industry has issued dismal profit warnings for this year.

The electronics sector, which has been rocked by the collapse in semiconductor prices, suffered big losses. Fujitsu tumbled ¥38 to ¥1,244. NEC lost ¥38 to ¥828, and Matsushita Electronic Industries, which yesterday announced the closure of a chip plant in the US, slid ¥40 to ¥2,020. Hitachi was unchanged at ¥200.

The Topix index of all first-section shares lost 15 points or 1.33 per cent to finish at 1,116.01.

KUALA LUMPUR continued the see-saw performance that has characterised trading since the imposition of capital controls earlier this month. Up 22 per cent on Monday and down 21 per cent on Tuesday, the benchmark composite index rose



Source: Bloomberg

40.09 or 11.5 per cent to 389.65 yesterday as investors targeted blue chips.

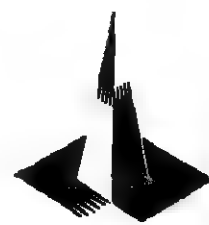
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Look what makes investments and businesses tick in

## Bahrain

- ✓ 100% foreign ownership of business
- ✓ No personal, corporate or withholding taxes
- ✓ Free movement of capital



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# The Business of Travel

Travellers stand to benefit as Asian businesses attempt to pick up the pieces from economic crises, writes Scheherazade Daneshkhu

## Opportunities as the tiger turns mouse

"The Asian tiger has turned into an Asian mouse," said one Singaporean hotelier recently, reflecting the region's mood following the sudden change in its economic fortunes.

Hotels and airlines in most parts of the region have experienced a heavy downturn in business following currency devaluations, economic pessimism and ecological disaster.

Cathay Pacific, Hong Kong's de facto flag carrier, reported its first loss in over two decades for the first half of this year, as both tourism and business travellers evaporated.

The airline is trying to improve revenues through greater efficiencies - retiring old fleet in favour of new aircraft - and launching special-price promotions. While it has not yet cut Asian routes, frequencies have been reduced.

For many business travellers, though, the downturn has meant cheaper and easier travel to the region. Some frequent flyers report that they have been able to take their pick of seats in the front cabin

and have been able to book into their favourite hotels without a problem.

"Two or three years ago a London to Hong Kong flight was sold out three to four weeks in advance, and the same was true for flights on certain days to Tokyo or Singapore. That's not an issue any more," says Kyle Davis, vice-president of purchasing management at American Express, the business travel agent.

Business class airfares to Asia from Europe were flat for the first time in two years during the first quarter of the year, and economy class fares dropped by 5 per cent compared the same period last year, according to Amex.

"The economic uncertainty has prompted airlines to offer some good deals for the leisure market, particularly in unpublished fares," says Mr Davis.

"In spite of this, demand for business travel from Europe to Asia continues to be highly inelastic, so while airlines are probably thinking it is not a good time to increase business travel fares, they don't need to lower them either."

The main inconvenience that frequent flyers to the region report is that some carriers have introduced stop-overs on some previously direct regional flights. So while finding room on an aircraft is usually no problem, the flight could take a less convenient route than before.

Hotels in Asia tell a similar story: empty rooms and reduced profits mainly due to a fall in Japanese tourists. Hong Kong is also missing the affluent South Koreans, Thai and Indonesian families who usually travel to the former British colony to shop.

This drop in business has led to distressed luxury goods retailers, whose shops line hotel arcades. Retail tenants in the plush Peninsula, for example, have been negotiating for a 40 per cent cut in rents.

For Hongkong & Shanghai Hotels, which owns The Peninsula, the threat of a tenant walk-out is just one more woe to be faced. Occupancy at The Peninsula in the first half of the year was just 45 per cent, despite a HK\$661 reduction in the



average room tariff to HK\$2,905.

Hotel room rates have fallen significantly in many countries in the region. They dropped in the first six months of the year by more than 30 per cent in Malaysia, 15 per cent in Singapore, 13 per cent in South Korea and by 11 per cent in China and Hong Kong compared with the same period last year, according to Hogg Robinson, the business travel agent.

Carolyn Moore, head of hotel consulting at Hogg Robinson, says Thailand appeared to be bucking the trend, with room prices up 6 per cent, but they declined 14 per cent the previous year after the devaluation of the baht.

Hyatt International says the current turnaround is taking place after 20 years of unparalleled growth in reservations and profits. But in some places, such as

Jakarta, where political turmoil has added to economic difficulties, hotel average occupancy rates have plunged.

The group says it is now quoting room rates in US dollars in some areas, such as Bangkok, in order to protect the US dollar debt service of owners of some of the hotels it manages while local currencies fluctuate. "Generally, the business

IN THIS SURVEY	
● Hotels: Magic eyes monitor minibars; 'Paradise' starts to feel the pinch; Loyalty benefits	Pages 2-3
● Car hire: Going Green and friendly; Rental companies take the eco road	Page 4
● Air travel: BA's new HQ; Arresting violence in the cabin	Page 5
● Health: The difficulties disabled travellers face	Page 7
● Travel management: The euro offers opportunities; Intranets can ease the booking pain; Electronic translation equipment	Page 8
● Travellers' tales: Jennifer Smith & Anna Zogna	Page 9
● Eating around: Scandinavia, the Baltics	Pages 10-11
● Technology: It's easy to stay in touch	Page 12
● Diary: Conferences and exhibitions	Page 12

traveller should shop around as there are still lots of deals to be had, especially in the softer markets," says Peter Baum, Hyatt's director of marketing for Asia-Pacific. "We are trying to offer added value and tailored business packages to attract the international traveller."

Mandarin Oriental, the hotels arm of the Jardine group, which saw a quarter of its net profits wiped off last year, believes there will be a further deterioration in travel and tourism in the region due to the state of the Japanese economy and the political upheavals in Indonesia.

Like other hotels in the region, it is offering free services such as breakfast, a newspaper and double bonus awards with eight airlines at its 12 properties.

"It's a good opportunity for corporates to get attractive deals," says Ms Moore. "Service is always very good there and we expect prices to remain competitive through 1999."

"But you should review rates on a regular basis because prices could go down further. If you've got a negotiated rate, the chances are that the published rack rate might be cheaper because stock is so

displaced at certain times. Also, another chain might give you better value, so it's worth shopping around."

It is worth remembering, however, that despite the discounts and free services, you could feel a hole in your pocket unless you are careful. One frequent flyer recounts how he stayed at a plush Hong Kong hotel usually beyond his company's means. "I asked

for room service to send me some coffee and realised later I'd spent about \$15 on a pot of coffee. So, although the adjustment in the room rates is fantastic, that decrease is not reflected all round."

The outlook for businesses in the region is not totally bleak. Mr Davis notes that business class fares from Europe to Asia rose by 6 per cent in the second quarter of the year compared with the same time last year. "We never thought business class fares to the eastern Asia would go down because once a business traveller decides to go that decision will not be affected by a 10 per cent fare difference. Also, airlines responded to the slump in air traffic to Asia by reducing the number of flights rather than lowering prices."

But hotel rates are expected to remain under pressure and new supply is also likely to be affected. Many of the 100,000 rooms under development in the region could be shelved or put to alternative use, according to Bill Cross, regional director for Asia with Knight Frank.

The international property consultant also predicts that some hotels could change hands as outside investors look for buying opportunities in the region.

But those that survive could come out of it strengthened. "Asia is set to emerge as a much stronger region with wealth based on genuine enterprises, not on inflated property prices," it predicts.

● Additional reporting by Louise Lucas in Hong Kong

### Problem.

I'm in Martinique. I've been bitten by a large insect and my arm is swelling badly - what do I do?  
It's 11pm and I've just arrived at my hotel in Lima. It seems they haven't received my reservation.  
My Spanish is limited, the hotel is full and I have a heavy business schedule tomorrow. Help!

I'm in a small village outside Oporto, I need a hire car NOW - and I don't speak Portuguese!  
I've been arrested in Toulouse. I don't really know what for but I believe they think I stole something from a restaurant. The authorities are going to put me in prison. Can you help?

I'm in Riyadh and my Saudi visa was in my luggage - which has been lost in transit. What can I do?  
I need to get an urgent message to my business partner but his line is engaged and my flight is boarding.

Can you help?  
My husband has passed out in our hotel room and we're due to fly home in two hours - he needs medical help and we'll never make our flight.

What can I do?  
I'm Malaysian and I'm due to travel to Tanzania in a couple of weeks.  
My friend has told me I don't need a visa, is he right? Also, what's the best currency to take?

My business meeting tomorrow has been switched to Kuwait City. I need to change my flights, get some local currency, find some appropriate clothing for a Muslim country and get a message to my family.

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## NewsBrief

## Greece slips to unenviable flight record

The skies over Greece are Europe's worst "black spot" for flight delays. Lack of radar cover is the main reason, says the Brussels-based Association of European Airlines. This forces aircraft to fly further apart than they would in areas where air traffic control is better equipped. The problem is compounded by the popularity of Greece as a holiday destination and the fact that its airspace is used by flights to and from Asia, Africa and the Middle East.

Another serious bottleneck occurs over northern France - a busy crossroads for north-south and east-west flights - with substantial delays in airspace controlled from Paris and Rheims.

The association predicts gloomily that delays are climbing back to the crisis levels of the late 1980s. Its members report that 60 per cent of hold-ups in winter and 65 per cent in summer are caused by infrastructure problems which are largely beyond their control.

## US agents draw up rights list

Air fares on US domestic routes rose by an average of only 1.7 per cent in the year to June. The price of economy and first class tickets rose by 2.2 per cent and 1.1 per cent respectively, says the country's Air Transport Association.

Despite that good news, airlines face "a rising tide of consumer dissatisfaction", warns the American Society of Travel Agents. It has drawn up a customer "bill of rights" against which carriers will be judged. Fundamental rights, it says, include honesty about advertised fares, schedules and seat availability, the truth about cancellations and delays, and courteous assistance for disabled passengers.

The society wants travellers to respond to a survey on its web site so that it can produce regular reports on how airlines are performing.

Meanwhile, the Air Transport Users' Council - the UK consumer watchdog - reports a 5 per cent fall in complaints against airlines in the year to the end of March - but says the number is received has tripled in 10 years. Delays are the biggest source of grumbles (19 per cent of the 1897-98 total) followed by baggage problems (15 per cent).

## Marriott to have new Heathrow hotel

A new hotel is scheduled to open at London's Heathrow airport in early January. Construction of the 380-room Marriott has begun on the A4 Bath Road. The aluminium and glass building, which will have a 20-metre high atrium forming the main lounge, will have 13 meeting rooms, the largest of which will hold 500 delegates in theatre style, beauty salon and two restaurants.

When it opens, the chain will find a new name for its existing Heathrow Marriott, which is on the M4 at junction 5.

## Perks outside the conference halls

Escaping to a conference is seen by many delegates as an opportunity for a little drinking and perhaps even a little

dalliance. But a recent survey suggests a large number take wives, husbands or full-time partners with them. A surprisingly high 17 per cent were accompanied by someone not involved in the meeting, researchers report.

Presumably the appeal is sightseeing and shopping, rather than the sessions. That could account for the discovery that 39 per cent said they would like to return to the destination for a short break or holiday.

## Saving the pounds at Sheffield hotels

Sheffield was the cheapest place to stay among the UK's leading regional cities last year. A survey by management consultants Pannell Kerr Forster shows the average amount paid for a room there was \$43.37 - slightly more than the \$45.87 paid in Coventry. Edinburgh's hoteliers achieved the highest average at \$55.37 - up 10.8 per cent over 1996 - followed by Manchester with \$53.95. The biggest price rise was in Bristol, where the average paid rose 12.3 per cent.

The most difficult place to obtain a room was Reading, where the average occupancy rate was 78.6 per cent, and the easiest, the report suggests, was Coventry, where it was only 62 per cent.

## Moscow value

Moscow hotels are notoriously expensive - but travel managers and agents have been negotiating bigger discounts there than in any other leading European city.

Comparing rates in Deutschemark, research by consultants Arthur Andersen shows the average rate per room in Moscow last year was DM537.94, which was 34 per cent more than the equivalent figure for London. The de luxe hotel average was DM690.87 against DM602.27 in London. But the amounts guests actually paid were considerably lower. In London it was reckoned to be 40 per cent lower on average than published rates. In Moscow it was 60 per cent.

## Centre for Salzburg

The Austrian city of Salzburg is to get a new conference centre. Scheduled to open in 2001, it will have 10 rooms and halls with seating for groups ranging from 20 to 1,350 delegates. The complex, which will be next to the Mirabell Gardens, will also offer exhibition space. It will be within easy walking distance of most hotels and main tourist sights, such as Mozart's birthplace in the Getreidegasse.

## City guides

American Express Corporate Services is offering handy city guide booklets which contain a wealth of information for business traveller and tourist alike. The free guides, which fit easily into a pocket or bag, so far cover Chicago, London, Milan and New York. Details from American Express.

Roger Bray

## Hotels

## Magic eyes monitor minibars

Roger Bray reports on how hotels can be sure his favourite tippie is waiting in his room

To many business travellers, tempted to go a drink too far after an already heavy night, the minibar is a horned devil lurking in the hotel bedroom. Although the price of its contents are usually higher than a rational person would contemplate, the appeal of the hotel minibar shows no sign of diminishing.

Evidence suggests that guests are increasingly likely to drink the mineral water rather than the whisky. However, the use of computer technology promises to boost sales by helping hotel managers to cut the cost of monitoring consumption and to reduce the number of items which slip through the net, often because the guest has booked out before staff reach the room.

Technology will also help hoteliers determine the preferences of particular nationalities or types of guest and which products rarely sell. It is likely, for example, that members of loyalty programmes will find their minibars stocked with items which they consume regularly.

The Forte hotel group believes that guests are using minibars more than ever before. Hyatt estimates that minibar purchases represent about 5 per cent of its food and beverage turnover. It says customers spend most at its tropical hotels, where climate encourages consumption of cold soft drinks and beers and revenues average about \$8 per room bill. Guests spend the least at airport hotels.

Travellers are still most likely to encounter the familiar "honour bar", whose contents need to be checked daily. Automated bars have been around for some time. Originally, they resembled vending machines, with flaps which guests raised to remove the products. Critics felt they sent the wrong message.

"Basically," says Mike McGowan, business development manager with Thorn Business Communications, which provides minibar software, "they said 'we don't trust you'."

New-style electronic bars are more subtle. When a customer removes a can of beer, for example, he breaks an infrared beam. That sends a message to a computer which records details and automatically adds the price to the invoice. The upside for guests is that they are

disturbed less. One US manufacturer claims automated bars reduce frequency of room checks by 70 per cent.

However, there are disadvantages. Depending on how they are financed, they can cost upwards of 60 per cent more than honour bars. And they are not entirely headache-free. The hotel manager must decide the number of seconds that will elapse before a sale is registered. If no time lag is allowed, will that upset guests who take out wine to check the label, replace it without removing the cork and wind up with the cost of it added to their bills?

Suppose a gap of 20 seconds is allowed. Will guests bother to check their watches, and will the familiar arguments of yesterday erupt at check-out?

But, in the eyes of many hoteliers, the advantages electronic bars promise outweigh such objections. These advantages may also persuade owners and operators of more modest hotels to provide them. This would reflect widening demand.

Minibars were associated originally with five-star luxury but now guests at four-star properties increasingly expect to find them in their rooms. Granada is even considering installing them in its 160-strong UK chain of budget Travelodge, which are usually built next to fast-food outlets but which - apart from a handful - do not have restaurants or bars.

Back at the top end of the market, Hyatt has been testing electronic bars at two of its Paris properties. Frank Ansell, international vice-president for food and beverage, says: "The equipment itself is expensive but in the long term it would save a lot of money. Not only does it save on labour costs because staff don't have to go around checking what has been taken out, we know exactly what guests like and don't like, which makes ordering and re-stocking much more efficient."

"The computer programme also tells us automatically when perishable items need to be replaced, which means there is no chance of the time expiring."

Hoteliers know a fair amount already about the preferences of particular nationalities. The Japanese used to like beef jerky but appear to have gone off it, though they still like dried fish. The Europeans go for high quality Swiss or Belgian chocolate. Americans



are happy with Oreo cookies and a packet of M&M's Peanuts - and cold beers are essential wherever the guests come from.

Hotels have also started including less predictable items in the "dry" compartment, such as disposable cameras and tissues, which could be a shrewd move given a recent survey which suggested at least 15 per cent of women business travellers had needed to buy them in emergency on the road.

Frank Ansell estimates that sales of mineral water have risen 10 to 15 per cent over five years, partly because more travellers use hotel exercise rooms and partly because of a general increase in

health consciousness.

Hilton lends weight to the health theory. In order of preference, the five drinks most in demand from its minibars are mineral water, Coca-Cola, orange juice, beer and whisky.

Heiko Fiege, general manager of London's four-star Mount Royal Thistle on Oxford Street, agrees that mineral water is the biggest seller but notes that minibars also produce about 9 per cent of the 700-room hotel's total alcohol sales.

"They can be a huge source of profit or a huge loss. At the moment it is a bit amateurish. The difficulty is to know the right time to go into a room and check what

has been consumed.

"Either the guest hasn't finished using the bar or it's too late and he has checked out. Then there is the old story - guests claiming they haven't consumed something. I would say that for these reasons we lose about \$1,500 a month. If we didn't we could probably bring minibar prices down 25 per cent. That is why we are now installing minibars with magic eyes.

"They are considerably more expensive but the potential wage savings are considerable. If you have 97 minibars on a floor and you know that 40 of them haven't been used, that's 40 rooms you don't need to check."

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## Hotels

### 'Paradise' starts to feel the pinch

A strong pound is affecting London's tourism trade, writes Scheherazade Daneshkhu

Booking an affordable room in London at short notice has turned into something of a challenge in recent years. A strong economy and relatively little supply of new hotels have conspired to make London a hotelier's paradise.

With average occupancy levels approaching 85 per cent and a 9 per cent increase in room prices last year to over £110, according to Pannell Kerr Forster (PKF), the management consultant, London is one of the strongest hotel markets in the world.

In the past 25 years hoteliers have never had it so good, says Stuart May, chief executive of PKF's hotel consultancy arm. "Last year's occupancy figure has only been bettered in the years surrounding the Queen's Silver Jubilee (1977 and 1978) but in real terms the achieved rooms yield and room rate have never been higher."

There are signs, however, that the London market may have peaked. A combination of a strong pound, slowing demand from Asia and an increase in new hotel building is beginning to put pressure on occupancy rates. "Business is not as good as last year," says David Levin, owner of The Capital, a 48-room, top-of-the-market hotel close to Harrods. "There isn't any question that the exchange rate is beginning to hurt. The pound has been strong for a while but it takes time for these things to filter through. Although occupancy rates are softening, Mr Levin believes room prices are unlikely to drop this year. "But the scene will change from next spring. There are a lot more hotels coming on than one appreciates."

David Michels, chief executive of Stakis, which owns the Stakis Metropole, one of London's largest

conference hotels, says business is still looking good but that persistent speculation about the advent of an economic recession is making some hoteliers nervous.

"It only takes one or two percentage points to make a big difference, and occupancy levels are probably a few percentage points lower than last year," he says.

The pressure on prices is coming from the top end of the market, according to Samantha Ross, strategic planning analyst at The Travel Company, the business travel agency. After raising room prices by as much as 10 per cent this year, some are now cutting back. "Some five-star hotels have pushed through substantial reductions. It's a definite trend," she says.

The strength of the pound has led to a fall in tourists visiting the UK while also reinforcing the perception that London is expensive.

That perception is also felt in the business travel sector; some companies are showing increased resistance to paying ever higher prices.

"We have seen corporations put limits on how much they are prepared to spend on accommodation in London," says Kyle Davis, vice-president, purchasing management group at American Express. "That, in itself, forces hotels to think carefully about their room rates. I expect there to be more ceilings set this year."

Carolyn Moore, head of hotel consulting at Hogg Robinson, the business travel agent, agrees that more companies are tightening their belts. "We have seen a dip in the number of suites being booked and the feedback we are getting is that corporations are being careful about how they are spending their money." She believes that London

hotel prices may well have peaked and that business travellers may well find themselves paying lower hotel prices next year.

"There are a lot of new hotels being built, so we will see more supply and that, combined with economic pressures, will lead to a reduction in occupancy levels and a reduction in price."

The larger international business hotel chains are also experiencing more competition from alternative accommodation. The town house hotel sector, for exam-

ple, has grown strongly in response to demands for value for money and a thirst for a more individualistic alternative to the standard business class hotel.

There were only a handful of London town house hotels in 1990 but the number has increased to about 20 today, according to Nigel Massey, a marketing consultant. He believes that corporate room prices at town house hotels are usually up to 20 per cent cheaper than at the large international business hotels.

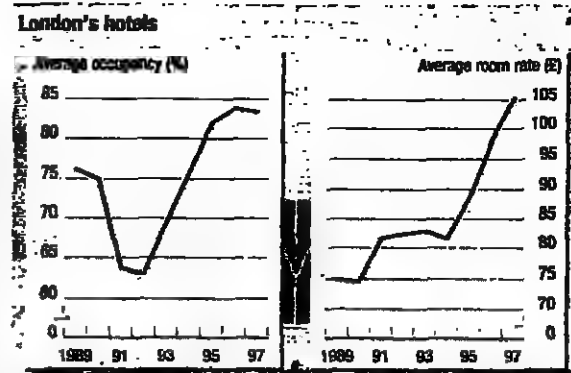
Another development has been the increased availability of budget hotels. These hotels, offering basic accommodation and no restaurant,

are more usually found along Britain's motorways. But demand for simple, clean accommodation has made the sector the industry's fastest-growing segment. Travelodge, Travel Inn and Holiday Inn Express have rapid development plans and have all recently opened hotels in London.

Serviced accommodation, while still limited, is also beginning to grow. The recently-opened Leham in Kensington claims its luxury serviced apartments will cost business travellers half the amount they might spend at a five-star hotel for a minimum stay of seven nights.

Frank Harris, the estate

agent and surveyor, believes that developers are focusing on hotel-building instead of serviced accommodation, particularly in the City. "Most business visitors tend - often through the lack of suitable alternatives - to use West End hotels," says Frank Harris, the owner. "There is undoubtedly a need for hotels in the City. However, there is a desperate shortage of serviced flats. I hope some of the developers look at all the plans for hotels in the Square Mile in the pipeline and have a rethink, otherwise we may well see a lot of empty hotel rooms while the demand for serviced flats continues unmet."



### Consolidation brings loyalty benefits

Scheherazade Daneshkhu, says companies, not travellers, seem to be the winners

For the first time, guests staying at a Ramada hotel have recently been able to use the same hotel loyalty scheme when staying at a Marriott or Renaissance hotel.

This type of arrangement is common in the airline industry where there are myriad alliances and codesharing agreements but it is a relatively new development in the hotel industry.

In the case of Renaissance, Marriott and Ramada, the scheme has come about because all three chains are part of the same group following Marriott's \$1bn purchase last year of the Hong Kong-based Renaissance hotel group, which includes Ramada and New World hotels.

A common loyalty scheme is one of the few tangible benefits to business travellers of the frenetic consolidation in the hotel industry which may have left some business travellers bemused. Last year, more than

\$25bn worth of hotels changed hands. Starwood Lodging Corporation, a real estate investment trust, planned to change its name to Westin Hotels and Resorts after acquiring Westin Hotels, a five-star, US-based chain last year.

But the pace of consolidation has been so rapid that the idea became redundant after Starwood emerged as a white knight to save ITT.

Owners of the Sheraton hotel chain from the clutches of Hilton Hotels Corporation, by outbidding HHC. While acknowledging that Starwood itself is not a brand, the group has renamed itself Starwood Hotels and Resorts as the umbrella for its brands, which include the newly-created W Hotels aimed at younger business travellers and designed to capitalise on the success of boutique hotels such as those operated by Ian Schrager.

Starwood's hotel loyalty scheme applies to all its

hotels, from the luxury newly-created St Regis brand down to Four Points, formerly Sheraton's mid-market brand. This is broader than Marriott's hotel loyalty scheme which does not cover stays at its Ritz-Carlton hotels, though Marriott is debating whether to include the luxury hotels in the same scheme.

Bas, the UK-based brewer and owner of Holiday Inn hotels, which paid £1.7bn to buy Inter-Continental hotels from Japan's Saison group earlier this year, still operates two separate schemes.

"While the two hotel groups are being integrated, it is our intention to retain Holiday Inn's Priority Club and Inter-Continental's Six Continents club," says Bas. "They are different schemes. Six Continents is a guest recognition scheme, giving benefits such as upgrades and early check-in, whereas Priority Club is points-based. There are no immediate plans to integrate them but it will be something we will be considering over the next few years."

The US-based Hilton Hotels Corporation and Ladbroke, owner of Hilton International, which operates Hil-

tons outside the US, also operate a single loyalty scheme as part of a marketing alliance struck in 1996 after failing to agree merger terms.

Consolidation is being driven by economies of scale, according to Stan Bruns, Marriott's senior vice-president for the UK, Middle East and Africa. "We can leverage our management expertise if we can have critical mass in any area," he says.

The benefits of consolidation to hotel groups are clear. Buying another hotel group allows companies to make savings by reducing back office costs. It also makes them more competitive in an increasingly global market by enabling them to offer business travellers one of their hotels in most parts of the world.

If the benefits to individual companies are clear, it is less obvious what the advantages are for business travellers. After all, no one is promising that the cost savings will be passed on to guests in the form of lower hotel prices.

Many of the enlarged companies say their guests will now be able to enjoy consist-

ent standards across a wider range of hotels; they will have access to more hotels when they dial a single reservations number and they will be offered alternative hotels in the group if the one they want to stay in is full.

The last two arguments - the opportunity to increase room sales - still sound more advantageous to the hotel company than to their guests.

And although many groups promise consistency, the reality often falls short of the delivery. Inconsistencies can arise due to the age of individual properties or the differences in their ownership structure. Some hotels are wholly owned by the chains, some are operated under management contract and others can be operated under a franchise arrangement.

Some hotel groups say they will not go down the franchising route because of the relative lack of control over the final product. Holiday Inn, which has expanded mainly through franchising, says it regularly reviews its portfolio to eliminate those hotels which are not operating to the required standard. It typically kicks out 5 per

cent of its franchisees out of its operations annually.

Inconsistencies and mismatched expectations can also arise if the branding is not clear. Business travellers may expect a Four Points to offer the same standard as a Sheraton or, conversely, may associate a Crowne Plaza with a mid-market Holiday Inn - one reason why Bas decided to remove the Holiday Inn name from its more upmarket Crowne Plaza hotels. The scope for confusion is even greater now that the large chains are trying to integrate more brands.

Ralph Giannola, vice-president for consumer marketing at Marriott, says care is taken to segment the brands through different pricing and service levels but that the Marriott name should convey certain core values, including cleanliness and consistency across the sub-brands.

And fears of falling standards as a result of consolidation are naturally dismissed by all hotel groups. In the case of Ritz-Carlton, Marriott has allowed the operation to be run by a separate business team, which should preserve its distinct character, says Mr Giannola.



### Any doubts about selection?

As all canny travel managers know, sometimes the easy route isn't the best one. Selecting a big name to keep things good and tight sounds like a simple and straight forward choice, doesn't it? But what happens when they fail to live up to their promise? When they just don't seem to understand exactly what you need? Your decision can quickly land you in some trouble.

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## Car hire

# Going Green and friendly

Tony Walker reports from the US on moves to replace the internal combustion engine

Environmentally-friendly vehicles, from electric-powered bicycles to zero-emission cars, are on the way in the US for discerning travellers, but the high cost of these vehicles is a constraint on rental companies offering such options for the moment.

The "big three" US automotive manufacturers and their Japanese counterparts have, however, joined battle to produce the first mass market electric-powered sedan: widespread availability of vehicles, which meet stringent new emission tests such as those introduced in California is, it seems, just around the corner.

Indeed, no less a pillar of the automotive industry than John (Jack) Smith, chairman of General Motors, hinted recently at the death-knell of the internal combustion engine. "No car company will be able to thrive in the 21st century solely with the internal combustion engine," Mr Smith told the North American International Auto show in Detroit.

California has taken the lead in driving car manufacturers towards a once-distant horizon by requiring 2 per cent of cars sold in the state this year to have zero-emissions, rising to 10 per cent by 2003. Other states, including New York, are following suit.

In the meantime, electric-powered vehicles are becoming the norm in tourist locations around the country: Washington regulators are fuelling the process by creating a new category of "low-speed" vehicles, (top speeds of 20 to 25mph) which are exempt from rules governing automobiles such as the requirement for airbags.

This step will prove a boon to the tourism industry which is relying increasingly on so-called "putt-putts", from golf carts to low-powered transit vehicles. It is estimated that 400,000 such vehicles are cruising resorts and retirement communities in the US, offering a silent, non-polluting and safer alternative to regular automobiles.

Gary Puroell, senior project engineer for the Electric Power Research Institute (EPRI) based in Palo Alto, California, describes growth in the market for electric-powered vehicles as "exponential".

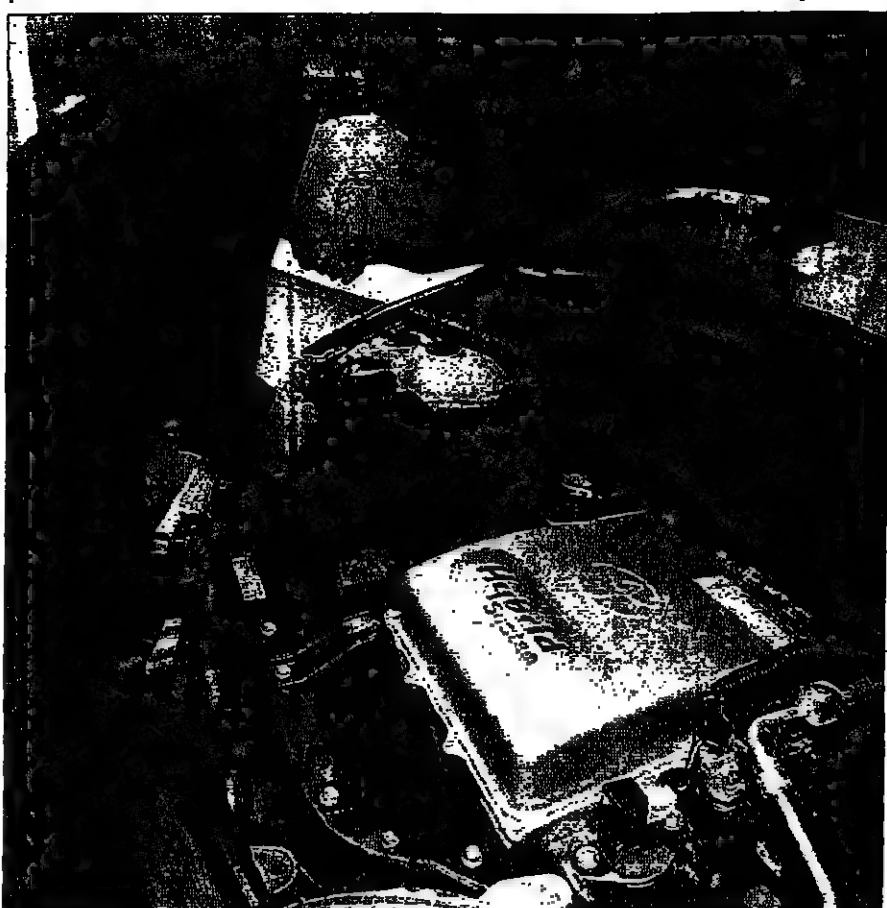
Development of battery technology is the main constraint, he says, but concerns about global warming and a likely increase in oil prices as reserves peak are accelerating the search for affordable, non-polluting vehicles.

Karl Thidemann, director of marketing for Electria Corporation of Wilmington, Massachusetts, manufacturer of electric-powered vehicles, says a booming tourism sector in which "eco-tourism" is an increasingly important element is providing rich opportunities for environmentally-friendly vehicles.

Mr Thidemann cited a recent case of the conversion of a diesel-powered tram to electric power at a Maryland nature reserve. Animals which had previously run away at the approach of the noisy diesel-powered vehicles were now relatively untroubled by the electric version.

He said that at this stage larger vehicles such as buses provided his company with one of its better commercial opportunities; cumbersome battery units were more suitable to larger vehicles.

School buses, which tended to spend long periods



Toyota's Prius combines the technologies of internal combustion engine and electric power. Photo: AP

idle and needed only limited range, were good candidates. Electric-powered buses, as opposed to hybrid vehicles which combine electric and gasoline-powered engines, have a range of about 60 to 70 miles.

In recognition of the trend towards "green vehicles" automobile manufacturers are spending hundreds of millions of dollars on research and development. Honda, for example, introduced an experimental EV Plus electric vehicle in California last year which produces no emissions, but suffers from the constraint of relatively high cost.

Toyota is leading in the development of an environmentally-friendly sedan: its Prius model on sale in Japan

is powered by a "hybrid powertrain" of electric motor and gasoline-fuelled auxiliary, but the company admits it is losing money on these vehicles which are about the same size as a Corolla but cost about twice as much to build.

General Motors has been experimenting with its EV1 electric car, but it has proved a slow seller. Like Toyota with its Prius, GM has been obliged to subsidise sales in an effort to get the public used to the idea. The company expects to have a "hybrid" on the market at an attractive price by 2001.

Ford and Chrysler are also pushing ahead with plans for low or zero emission vehicles. Both expect to have such products available by

early next century.

In the meantime, it is nimble companies such as Bombardier which are making the running in pursuit of niche markets. It was the Canadian company which persuaded the National Highway Traffic Safety Administration in Washington to approve its neighbourhood vehicle (NV) mini-car for limited road use.

Bombardier's dream is to capture the US market for second cars such as those used by rail commuters to travel between home and station. The company estimates that the market for "second cars" is around 20m. "Green cars" as neighbourhood vehicles and for travel and tourism are, it seems, about to take off.



Gone are the days of smoky diesel; LPG-powered vans are now available

## Rental companies take the eco road

Amon Cohen finds no loss of performance behind the wheel of a car running on LPG

If you want to be a truly environmentally-friendly traveller, hire a horse or charter a yacht. Should neither of these alternatives prove practicable for business purposes, try car rental, a sector busily reinventing itself as a Green option for the eco road warrior.

Company cars are facing increasingly punitive taxation, leading businesses to reduce their in-house pools and hand over any excess requirements to rental. This helps to reduce the total number of cars on the road, as does car sharing. Some companies are leasing vehicles - particularly "people-movers" - which are used to ferry workers between home and their workplace.

Personal car travel has also been "greened". Hertz has for a couple of years operated car clubs in more than a dozen European cities aimed at making car hire financially preferable to permanent ownership. Members buy vouchers, entitling them

to make priority bookings at preferential rates.

It is now possible to hire vehicles that run on environmentally-friendly fuels. Budget Rent a Car is leading the way with liquid petroleum gas (LPG), ethanol, methane and electric cars in assorted markets. Hertz has also dipped its toe into the market with electric cars in Stockholm and Gothenburg.

Budget's director of sales and marketing for Europe, the Middle East and Africa, Paul Johnson, insists that "Green" cars are not a marketing gimmick. "There is genuine consumer demand," he says. "I think cars with LPG will become the norm. They have significantly smaller carbon monoxide emissions and are cheaper to run. We rent them for the same price as gasoline-powered cars and their performance is exactly the same."

I can confirm this latter statement, having test-driven one of Budget's converted Ford Mondeo's, which are available at some locations in the UK and France.

The only difference I noticed was that the engine seemed quieter.

The car had a conventional unleaded petrol tank as well, so the driver can switch when the LPG tank runs dry. This is just as well, since the number of petrol stations offering LPG remains limited - probably fewer than 100 in the UK.

Even so, the other statistics are impressive: an LPG vehicle emits 80 per cent less carbon monoxide and nitrogen monoxide than petrol and in the UK is one-third cheaper to run per mile.

Budget's French operation has electric Renault Clio's and Citroen AX's at four locations in central Paris. The cars run on nickel cadmium batteries, emit no noxious fumes and are four times cheaper to run than petrol-powered vehicles. Recharging is not a problem either, since Paris has 230 recharging points.

Rentals start at FF299 per day, whereas a comparably-sized conventional car would cost FF485. However, electric cars do have severe limitations. The Clio's top speed is 80mph and the car has a range of only 45 to 55 miles before recharging is required.

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## Air travel

## Meet me in Islamabad

Baggage from state corporation days has been left behind. Michael Skapinker reports

Dirty tricks, cabin crew strikes, ethnic tallfollies: British Airways has been buffeted by more controversies over the past few years than it might care to remember. But to walk into BA's new £200m HQ near London's Heathrow airport is to lay aside all doubt about the airline's sense of purpose. This is a world class building: only a professional malcontent or architectural illiterate could say otherwise.

Stroll around the fountain in the foreground, through the limestone-clad entrance, and you enter a world of light and space. A cobbled lane, shaded with olive and fig trees, stretches, under a vast glittering, glassed ceiling, past shops, florists and sidewalk cafes.

Along the way you can drop in at the open learning centre where you can improve your Spanish or mug up on aircraft safety procedures.

At the end of the lane, beyond the building's glass edge, is an artificial lake. And, beyond that, is a 240-acre public park, built on what was once a dump for domestic rubbish. BA says it is the largest public park created in London this century.

When the café palls, staff can retire to the canteen or the formal restaurant, both overlooking the lake. They can take their "intelligent" cordless telephones with them, if they do not mind being disturbed.

It does not look as though they would. Everyone looks pretty relaxed, thanks, perhaps, to the Feng Shui expert who was consulted

about where everything should be or to the modern art and sculpture adorning the floors and walls.

Welcome to Waterside. This is the name which the 2,500 people who work there voted for in an electronic poll. As the alternatives were British Airways at Harmondsworth, the Global Village and Speedbird Centre, the choice was perhaps not a difficult one.

The name Speedbird Centre, in particular, must have sent a chill through many of the electronic voters. BA's old headquarters building was called Speedbird House. Visiting it was enough to spoil your day. A classic government-owned dump, Speedbird House was surrounded by razor wire. Visitors were told to report to a gatehouse, which could have done service at the Berlin Wall. Heaven knows what it must have been like to work there.

Waterside, which began filling up earlier this year, demonstrates how much our notions of work have changed in the 50-odd years since Speedbird House first opened its doors. It also shows how much BA has changed - or is trying to.

As a state-owned company, BA used to share a civil service state of mind. Some of its managers and employees complain that in its hierarchies and bureaucracies it behaves as if it still does.

Waterside is an attempt to get away from all that. "The philosophy is to be open, informal, less hierarchical," says Chris Byron, the building's project director. "I'm

not saying totally unbiarchical, but flatter, and supportive of continuous learning."

Is it less hierarchical? There is an executive wing at Waterside, which is smarter than the rest of the building - although, in fairness, the bosses have not given themselves the best view. From where they sit they can see the motorway.

Like everyone else the senior executives work in large spaces which cannot be called offices. Lord Marshall, BA's chairman, is the only person in the building who has anything resembling an office. Robert Ayling, the chief executive, has what looks like a lounge suite and a dining room table in an open area.

Everyone else at Waterside works at desks, a little too close for comfort, in large open plan rooms. Much has been made of the "hot desking" at Waterside. I tell Mr Byron that I have my doubts about people arriving in the morning, grabbing the nearest desk and starting work. "Surely the human nest-building instinct is too strong for that? Even in an open-plan office, people immediately mark their spaces with family photographs and books on shelves."

Actually, he says, only 800 of the Waterside staff do not have their own desks. These are mostly marketing and sales people who spend most of their time on the road. Staff visiting from abroad also sit at whatever desk they like. Everyone else has their own space.

But when visitors, con-



Waterside: BA's £200m new HQ near Heathrow was designed to reproduce the atmosphere of an English village

tacts or clients arrive, most BA staff prefer to meet them at one of the cafés in the atrium. In creating the central glassed lane, with the offices on each side, the Norwegian architect Niels Torp wanted to reproduce the atmosphere of an English village, with its high street, shops and houses.

It looks more Italian to me, I tell Mr Byron. "I take that as quite a compliment," he says. This was the other message to get across: that BA is an international company. The different parts of the building are named after continents or regions: Europe, Americas, Africa,

Australasia, Asia and, in case that leaves anyone out, Orient.

The private meeting rooms, of which there are many, are named after cities in each of the regions: you can plan strategy in Islamabad or gossip about the management in Rio de Janeiro.

These names sound the only contrived note. BA people surely need no reminding that they work for an international company. Bumping into the Cyprus PR manager outside the café or preparing for a meeting of BA's Africa managers will surely do that.

But these are quibbles. Waterside looks like a good place to work. And its opening raises an intriguing question. How will it be viewed 50 years on? What will we understand about work then that we do not know now? Will Waterside seem as anachronistic as Speedbird House does today? Undoubtedly. But have a café latte in the meantime.

## Arresting violence in the cabin

Drunken passengers are the cause of many serious incidents, writes Michael Skapinker

The headlines make dramatic reading. "Ex-model jailed for in-flight mayhem," says one. "Hooligan jet attack woman jailed for two years," screams another. "Drunken passenger jailed for nine months for aircraft head-butt rampage," yells a third.

Airlines, flight attendants and police worldwide are unanimous: violent incidents involving passengers are increasing and something must be done about it.

Guy Gardner, a senior official of the US Federal Aviation Administration, told a Congressional committee earlier this year: "There appears to have been a marked increase in the number of passenger interference cases over the past several years."

In the UK, Toin Brake MP, the Liberal Democrats' aviation spokesman, said the number of serious incidents involving drunken passengers had "soared" from 13 in 1993 to 62 in 1997.

That is a large increase, but Parrol Kahn, director of the Aviation Health Institute in the UK, warns against over-reaction. Compared with the number of flights taking off and landing each day, the level of on-board violence is tiny. "It's been blown out of proportion," he says.

It is certainly true that the only violence most travellers are likely to witness is on the in-flight movie. But the reports of those incidents that do occur suggest that they are frightening to all those involved. Violence in an enclosed space thousands of feet in the air is far more threatening than the same incident on a city street. And there is always the fear that in-flight disturbances could compromise the safety of the flight.

The three headlines above all concerned incidents on British Airways flights. The first occurred on a flight from Manchester to New York in which the ex-model involved assaulted at least two flight attendants and abused all those who tried to restrain her. She had drunk cannabis tea before the flight and con-

sumed two mini-bottles of champagne and wine on board. Her lawyer told the court that she was deeply embarrassed by what she had done and said, in mitigation, that she had suffered from a series of personal problems.

The second case, which occurred on a flight from Montreal to London, involved a passenger who had drunk three-quarters of a bottle of wine before boarding the flight and took her own bottle of whisky on to the aircraft. She was also taking anti-depressants and antibiotics. After abusing passengers and staff, she severely assaulted the policeman who boarded the aircraft at London's Heathrow airport to arrest her. Once again, her lawyer told the court she deeply regretted what she had done.

In the third case, a drunken passenger's behaviour was so violent that the aircraft was forced to make an emergency landing at Heathrow. The passenger head-butted and kicked two BA flight attendants. It took 10 restraints to keep him in his seat. Staff had to sit with him during the rest of the journey so that the number attending to the other passengers fell below that required by safety regulations.

The airlines and regulators have no doubt about what needs to be done in cases such as these. National authorities have to be prepared to prosecute and courts need to be ready to impose custodial sentences.

The FAA's Mr Gardner says: "We believe that highly publicised criminal prosecution of these cases will serve as the best deterrent in this area." But the FAA believes that imposing financial pain on disruptive passengers through civil actions will help too.

"In addition to criminal charges, the FAA may propose penalties of up to \$1,100 per violation for interfering with a crew member on a domestic flight," says Mr Gardner. "In 1997, 284 civil penalty cases involving passenger interference with

crew members were initiated by FAA's legal offices. During that same period, \$73,160 in civil penalties were assessed. In one case, the FAA recommended a \$16,500 civil penalty against a passenger who assaulted a flight attendant. The civil penalty in this case... was for multiple instances of crew interference."

However, Mr Kahn says excessive concentration on criminal and civil action against disruptive passengers is not enough. "It's treating the symptoms, not the causes," he says.

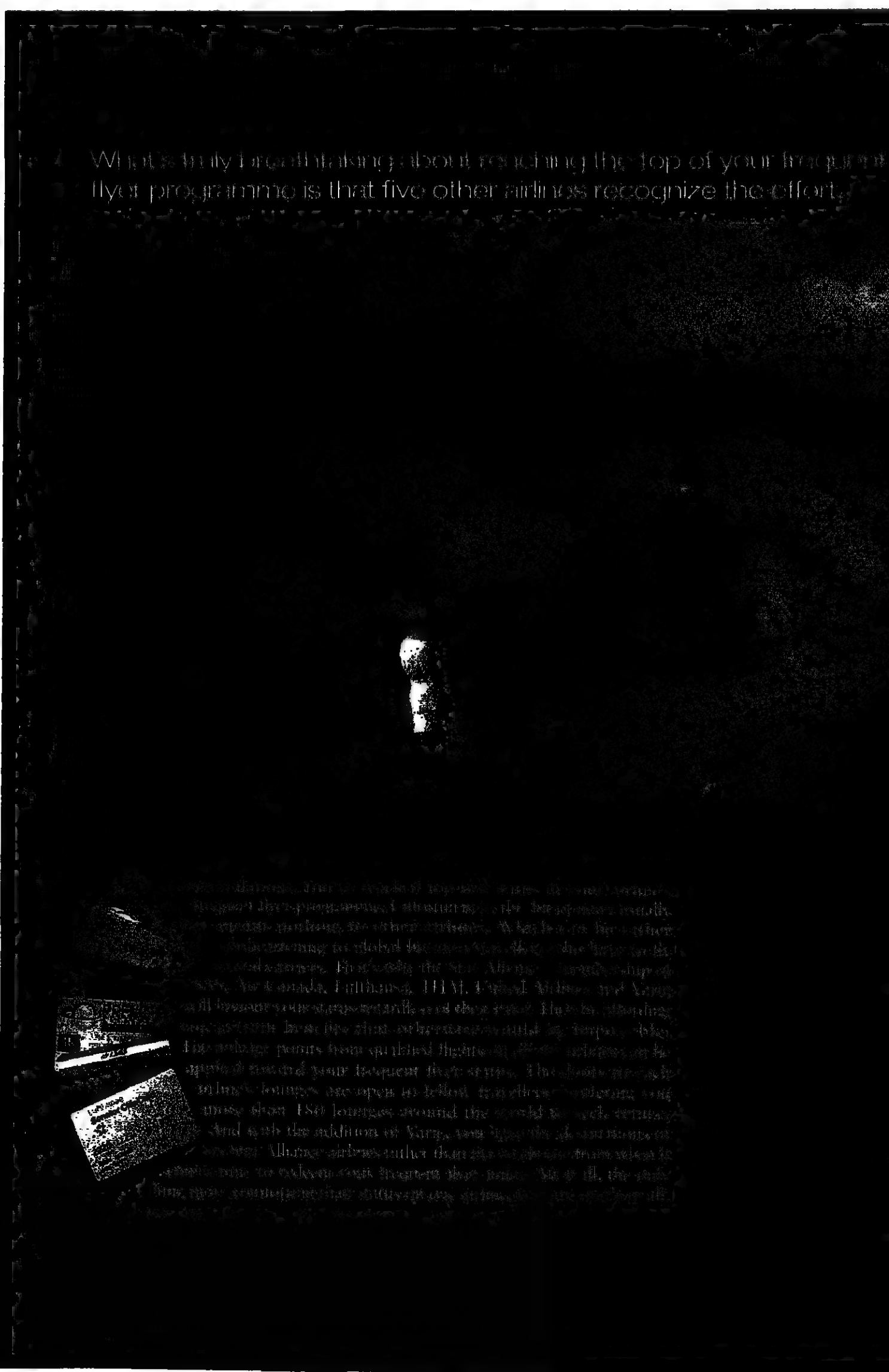
The first point that airlines and regulators need to focus on is alcohol in almost every case of violence, the disruptive passenger is drunk. Mr Kahn says air travellers need better education on the effect of drinking on an aircraft. A few drinks in the air have a much more powerful effect than the same alcohol intake on the ground.

Drinking restricts the amount of oxygen to the brain. Flying does the same, exacerbating the effect of the alcohol. "Any drug we take during a flight has the same effect. Unfortunately, people are not aware of that and they need to be warned about it," says Mr Kahn.

Airlines should place an information sheet about the effect of drinking during flights in the seat pockets of the aircraft, he says, so that passengers see them when they reach for the in-flight magazine or the catalogue of duty-free goods.

He says some airlines have also understood the importance of staff training. Potentially violent passengers can be calmed down if trained staff deal with them soon enough. Staff also need more training in when to refuse passengers drinks on board.

Mr Kahn cites the case of an international hotel group which has instructed bar staff to refuse to serve guests who have already had too much to drink. He says that, in many cases, the shame-faced guests appear the next morning to thank the staff involved.





صلى الله عليه وسلم

## Health

The travel industry spends millions of pounds each year to develop, for example, more comfortable seats on aircraft and more luxurious hotel accommodation. But is enough attention being paid to disabled travellers?

# When simple travel is usually far from easy

**Sarah Murray reports on some situations most able-bodied people take for granted**

You are blind. Ahead lies almost a mile of corridors crowded by people with bags, trolleys and children and all rushing to catch flights. In the middle of your route is a shopping centre where duty-free retailers do their best to ensnare passing pedestrians. Signs guide passengers through this maze, but you cannot see them.

You are in a wheelchair. The airline you are using for a long-haul flight insists you take an escort as cabin staff - classed as food handlers - are not allowed to help you to the lavatory during the flight. This means paying for another ticket for the journey.

These are just two problems faced by disabled travellers. Others include identifying and retrieving luggage if you are blind, the pain of long-haul travel in an economy class seat when you

have stiff limbs or arthritis, the sheer size of modern airports for those with mobility problems, and endless forward planning for all.

"Everything has to be pre-planned," says Bert Massie, director of Radar (Royal Association for Disability and Rehabilitation) and a wheelchair user. "How am I getting to the airport? Will there be people there to help me on to the plane? What kind of plane is it? You have to take all that into account."

For some, it's a question of attitude. On one business trip, John Wall, chairman of the Royal National Institute for the Blind and himself blind, was shocked when at the check-in counter he was asked to use a wheelchair to get to the departure gate. "The woman behind the desk said: 'Well, you can either walk through in 45

minutes' time or go through in a wheelchair now." Despite such frustrations, vast improvements have been made to airports by the introduction of greater areas of level access, help phones, induction loops for the hard of hearing, easy access toilets and other infrastructure adjustments. "Most people have trolleys, so designing level access is obvious good practice for airports even if they haven't got their heads round the disability side," says Ann Frye, head of the mobility unit at the UK Department of the Environment, Transport and the Regions.

In the UK, BAA's Easy Access Design Standard provides a check list of the facilities needed for disabled travellers that is used in project development at its airports. According to Alicia Hamilton, special needs manager at BAA, much can be achieved simply by focusing on details, such as positioning toilet flushes so they can be reached by a wheelchair user. "This is not earthshattering," she says. "It's

often the simple things that can make an awful lot of difference."

These simple measures are easily overlooked. Sidney Callis, chairman of the Blind Business Association which helps visually impaired people into self employment, suffers from retinitis pigmentosa, leaving him with extremely poor near-sight and total blindness at night. Mr Callis, who travels to "the four corners of the earth" as a consultant and trainer, says that even Singapore's Changi airport, which he describes as "one of the best in the world" has one big disadvantage for blind people.

"It's carpeted," he says. "And when you put your white stick out, every so often it hits a metal strip where they've joined two pieces of carpet and you think 'What the hell's going on now?'"

In some airports, however, the floor covering is the least of the worries. "Athens airport has a particularly bad reputation," says Ms Frye. "They seem to herd



Airports operator BAA has incorporated telephone help points, such as this one at Stansted

wheelchair users into an underground passage with no ventilation. They won't let you wait with your family. You're whisked away and dumped in this subterranean corridor with no information, and that's pretty grim."

Another problem, she says, is that no accessibility conditions are attached to European Commission development project funds. "So you can get massive funding to put up a totally inaccessible building," she says. Access to the Skies - a group organised by the mobility unit of the UK Department of Transport that comprises representatives of airlines, airports and disability groups - is putting pressure on the commission to introduce conditions for funding.

"Neil Kinnock (the transport commissioner) has been very receptive to the idea," says Ms Frye. "I think it will be coming on stream very shortly."

But while legislative pressure can help enforce accessibility in airports, the UK's 1995 Disability Discrimina-

tion Act does not cover air travel, and airlines operate their own policies on disabled travel. This can include imposing wheelchair handling charges.

"At the moment all the big airlines absorb the cost," says Ms Frye. "But some of the smaller ones operating on wafer thin profit margins have to pass the cost on to the passenger." According to Mr Massie of Radar, this commercial agenda is part of the trouble, particularly on the issue of leg-room. "It's not that people sit at the airport and say 'We're going to discriminate against you'," he says. "What they say is: 'We have very real economic pressures therefore we must get as many people on an airplane as possible.'"

For Mr Massie and others on the Access to the Skies committee, distributing the

cost would be a solution. "If everybody paid a small fee, no one would miss it and I don't think anyone would object if they knew what it was for," he says.

"If you spread the cost it would be fractional across the board, whereas if you focus it on certain passengers it becomes both discriminatory and quite heavy," says Ms Frye.

Other issues needing to be resolved include airlines classifying disabled people as sick or being able to insist that they are accompanied by helpers. Ms Frye says that a group under the European Civil Aviation Conference is currently working to establish good practice among airlines.

But as the market for disabled travellers expands, carriers may be forced to move their policies closer to current thinking on disability and discrimination.

## Airlines, hotels making progress

But a company's good work can be let down by an employee's attitude. David Pilling reports

When Bert Massie started using London's Heathrow airport 30 years ago, his check-in procedure involved a trip to the medical centre where a nurse offered him a cup of tea - and a catheter. "I always accepted the former and declined the latter," says Mr Massie, director of the Royal Association for Disability and Rehabilitation, and himself a wheelchair user.

These were the days when airlines made few provisions for disabled passengers, not even ensuring that toilets were accessible on long-haul flights. A catheter was the best they could come up with. Not surprisingly, few disabled people ventured abroad. Those who did were such rarities that Heathrow was able to ferry them individually to the plane in an ambulance.

Such individual service has gone. But few are mourning its passing. These days, more than half a million disabled passengers, many of them business travellers, use Heathrow every year, mirroring a worldwide explosion in travel by disabled people.

Many airlines have adapted to these new demands, though some better than others. The catheter problem, for example, has been solved by the simple expedient of equipping aircraft with "skychairs", on-board wheelchairs narrow enough to squeeze down the aisle and into the lavatory.

American Airlines is typical of the better carriers. Although it permits only one manually-operated wheelchair on board each flight, it allows other disabled passengers to check in their wheelchairs at the gate. At departure and arrival, assistance is available to help people on and off the plane as well as to and from the airport terminal. American Airlines does not charge for this service, but some airlines do.

Like many airlines, American does not allow passen-

gers to bring their own oxygen equipment on board. It can supply oxygen, but it charges \$75 per sector of the journey.

American is also fairly typical in computerising any special needs frequent disabled travellers may have (from the amount of help required to dietary requirements). This is intended to spare passengers the trouble of forever repeating their requirements at each stage of the journey or when booking a new flight.

Frequent air travellers from the UK fill out a similar form. But it took a revolt from disabled activists to expunge questions asking whether the traveller's smell, appearance or behaviour was likely to cause offence to other passengers. Mr Massie, who is a regular business traveller, has had mixed experiences with airlines. German, Scandinavian, Swiss, UK and US airlines are generally good, he says. With others, it is more hit and miss. Air France, for example, once brought him safely back from a business trip to Paris, but neglected to carry his wheelchair. "That's like cutting off my legs," he says. "It's just not forgivable."

Getting to a destination with body, soul and equipment in tact is just half the battle. The other big factor is the hotel at the other end. Here again, the picture is varied. The Copthorne Tara in Kensington, part of the Millennium & Copthorne group, was the first hotel in London to make itself fully accessible. It now has 10 rooms that are thoroughly adapted, two of which have hoists from the bed to the bathroom for those with severe disabilities. The other rooms have wider automatic doors, induction loops and flashing fire alarms for the hearing-impaired, wheel-in showers, remote-control operated curtains, lower beds and fridges for medication. The hotel regularly

hosts conferences on disability and staff are used to catering to the needs of up to 100 disabled guests at a time.

The Copthorne Tara is still the exception. But says Brian Seaman, a UK consultant on hotel accessibility, other chains, both in Britain and abroad, are becoming more and more conscious of the need to cater for disabled guests.

In many countries, building regulations for all new hotels require that a certain number of rooms are fully accessible. Existing hotels in older buildings are doing what they can to adapt, he says.

"We've come a long way in the past 15 years," says Mr Seaman. "Now, it's a very positive picture. I see existing hotels making great strides, and facilities in new hotels should be fully accessible from now on."

None of this means disabled travellers can relax. Guests are often told, for example, that a hotel does not have any steps at the entrance, only to find there are three or four (a potential cliff-face) when they arrive. Other guests are treated insensitively by receptionists unaccustomed to dealing with disabled guests. "This all comes down to staff training," says one experienced business traveller.

American staff are often the best trained, partly because a strong disability lobby forced changes in the law at an early stage. The UK, Scandinavia and other parts of northern Europe are arguably next best, with much of the rest of the world still some way behind.

Mr Massie found this out to his cost on a recent trip back to London from South Korea. The airline provided no skychairs and no assistance in using the bathroom. "I was expected to go 12 hours without using the lavatory," he says. It was just like the bad old days.



## Travel management

### Euro offers opportunity to compare

Companies are eyeing the advantages of a single currency writes, Rachael Jolley

Business travellers will lead the advance party of regular users switching over to the new European currency - the euro - when it comes into existence on January 1. They are likely to be among the first to work with the euro regularly and the first to become comfortable using it, as their companies identify the accounting and negotiating advantages in opting for a single currency.

From the beginning of next year, regular travellers will start to encounter euro pricing across the 11-country zone. Hotel companies are currently discussing how and where to offer euro pricing. Airlines are debating whether customers need to see prices quoted in euros as well as the national currencies from day one.

The global travel distribution systems, such as Amadeus and Sabre, are offering the ability to convert to euro, although main displays are likely to be in national currencies only.

Ian Hall, vice-chairman of the Institute of Travel Management, the group representing travel managers, says: "Overall, the euro could be good news for business travellers. There will be one currency. There will be an opportunity to compare pricing and it will be a lot less hassle."

Despite the fact that the actual euro cash will not be available during the dual currency period, between 1999 and 2002, it will be

possible to make purchases using a credit card or traveller's cheque. Given business travellers' propensity to use credit cards, that should not be too much of a hardship.

In fact, card companies such as Visa International expect to see a surge in use during the dual currency period. Visa is also adding the euro to its Visa TravelMoney smart card, a card which can be loaded up with the equivalent of various national currencies. Cash can then be withdrawn at cashpoints.

Mr Hall believes that being able to compare prices in euro across Europe is going to deliver another weapon into the travel manager's armoury when it comes around to rate negotiations. "It will enable us to make real comparisons and question the cost."

Tom Stone, worldwide travel manager at SmithKline Beecham, says: "I think the consensus is that the euro will be a good thing." His pharmaceutical company will allow each unit within the euro zone to set its own policy on how it will handle the new currency.

Mr Stone believes the additional transparency may bring major inconsistencies in air fares out into the open.

"Everyone knows flights out of London to North America, are 25 per cent above those from continental Europe," he says. Suddenly,



Carrying the euro (left) should cut down on the need for travellers to carry a fiftful of currencies

those pricing strategies will be laid on the table, giving travel managers the chance to ask hard questions.

The euro may also give the green light to more pan-European flight deals, so a large company will negotiate prices with an airline on various routes across Europe.

The arrival of the euro is also likely to advance the case for a pan-European travel agent who can work for larger corporations across the region.

Mr Stone feels that smaller agents could be threatened by the euro, especially if they fail to recognise its potential or invest in the software needed to account in the currency. Carlson Wagonlit Travel

(CWL) estimates that the euro will stimulate business travel to increase by 8 per cent in the next six years, which could, in turn, be a factor that will counteract the price transparency factor and stop flight prices falling.

It also predicts that as pan-European agencies become more common, that one multi-lingual centre could handle reservations from across the continent. CWT is already building large, out-of-town reservation centres in the UK and France.

CWL estimates that the cost to companies of the transition to using euros will be up to 3 per cent of turnover. Apart from the savings on transaction costs for foreign exchange, the euro is

likely to make expense reporting easier.

Travellers from non-euro countries, but travelling within the euro zone, may also find it easier to use the common currency. Once the coins are available, one potential saving will be in not returning with pocketful of change from a variety of countries. These are the coins that then disappear into the back of a drawer for years.

Travellers who think they lose out on expense claims due to transaction fees, shifting exchange rates, and buying versus selling prices, would obviously gain from working within the euro zone, where exchange rates among the participating countries will be fixed during the dual currency period.

Some tickets are already being issued with euro prices on them, such as at the Eurostar terminal in Brussels. But after January 1 the euro and its new symbol will become a more familiar sight, and companies are likely to take firm decisions about how they want travellers to handle euro transactions.

### Intranets can ease the bookings pain

Amon Cohen finds out how tricky reservations can be made from the comfort of an armchair

The British Council has some obscure outposts in the 109 countries covered by its activities. Yet even from the remotest corner of Africa, booking a hotel room in the UK could not be easier. The British Council officer simply dials into the organisation's corporate intranet - its closed-user web site - and looks through a directory of preferred properties.

The user can make a search based on location, price or even whether the hotel has a car park. If they want to know more about a particular property, they can click a button for further details and a photograph.

With some, they can even take a virtual "walk-through", peering around the interior with their computer mouse. Once the selection is made, the user enters details such as the number of guests and the number of nights required, and the computer makes the booking.

All this has been done for the British Council - which promotes cultural, technical and educational co-operation between the UK and the rest of the world - by a web-based hotel reservations company called the Corporate Inn.

Apart from the convenience, the system also produces significant economical advantages for the British Council. The Corporate Inn has built its own database which bypasses the vast global distribution systems (GDS) used by most of the travel industry.

Operations director Jay Virdee claims GDS fees and other electronic distribution costs can double the 8 to 10 per cent commission a hotel pays an agency for each booking. Using the new system effectively halves the cost of selling a room, which means hotels can pass on some of the distribution savings through improved rates to the customer.

The system also provides an electronic distribution medium for small, independent properties which cannot afford GDS fees. This is perhaps the principal attraction for the British Council, which reserves 68,000 room

nights a year from its UK offices alone. Although some are in upmarket hotels used by visiting foreign dignitaries, many are for students staying in much cheaper accommodation.

"It is much easier using this system than a GDS to get our own preferred suppliers put on the database," says British Council travel manager Kevin Watts. "In particular, the British Council has business in hotel-type properties - and you cannot find those on the GDS. We wanted something more flexible."

Although it is unusual to have a live booking system, especially outside the US, travel content on corporate intranets is "absolutely hot at the moment", according to Marc Hildebrand, head of product development for travel management company, Business Travel International.

Ultimately, many companies will use them to book flights as well as hotels but Mr Hildebrand cautions clients to proceed gently. "If you go in with an all-singing, all-dancing system, then users could be overwhelmed and they won't go back," he says. "They need an educational phase."

Mr Hildebrand recommends a three-stage programme. Phase one has static content, including travel news, procedural information such as how to file expense reports, data on preferred suppliers and the company's travel policy. Hyperlinks link up the content, with connections to preferred suppliers' sites, for instance, allowing travellers to check the status of their frequent-flyer accounts.

The second stage features travel planning tools, such as air schedules and a hotel directory, plus a list of questions and answers regarding the most common queries the travel agent receives. It also carries destination information plus weather reports and exchange rates. Only once all this content has been absorbed does Mr Hildebrand recommend adding self-service reservations, and even then this will not be for everybody. One of

the best travel intranets he knows is that of Glaxo Wellcome, where travel manager Richard Plummer is firmly against employees making their own bookings. "Our core business is finding, developing, manufacturing and selling pharmaceuticals," says Mr Plummer.

"We have research scientists who cost a lot of money and I want them to concentrate on that, not making travel arrangements."

Although it is not cost-effective for employees to deal with the intricacies of travel booking, Mr Plummer discovered savings were to be made through a booking request system. Travellers send an e-mail specifying where they want to go and when, leaving the rest to the BTI agents, who pick up the request.

Mr Plummer has also put a Q&A sheet on the site. As a result of these measures, the average number of telephone calls required to complete each booking has dropped from eight to six, allowing him to reduce his headcount.

The key to successful travel management is consolidating spending with fewer suppliers in return for greater discounts. Mr Plummer's job is to ensure Glaxo Wellcome sticks to its side of the bargain. And, so far this year, only seven travellers have flown the Atlantic with non-preferred suppliers, even though the company does not impose an absolute mandate on employees.

Mr Plummer has achieved this through heavy promotion of preferred suppliers on the intranet. "I see my web site as a very exclusive club. If you are on it, you are a preferred supplier," he says. The Glaxo Wellcome site receives 4,500 visits per week from around the world. It also includes maps of company locations and destination information from the health and safety and security departments.

Even national preferences are taken into account. At the request of Italian employees, who are particularly averse to hotel dining rooms, the site features a restaurant directory.

### Still lost in translation

Electronic systems have a long way to go before they become reliable interpreters, writes Amon Cohen

Imagine a business traveller using a client in a country where they are unable to communicate because they do not speak a common language. Fortunately, the traveller pulls out a mobile telephone with a speaker attached to it, dials an electronic translation service and tells it which languages are being spoken. The meeting then proceeds with the mobile phone acting as an interpreter, automatically translating each sentence as it is uttered.

This remains in the realm of science fiction but it is the goal towards which the publicly and privately-funded German Research Centre for Artificial Intelligence is working. The centre is attempting to marry voice recognition and mechanical translation technologies. It has already developed a system called Verbmobil that enables German and English speakers to arrange a meeting by interpreting days of the week, hours of the day and so on.

Clearly, this has no practical value since there is little point in two people meeting if they cannot even fix an appointment in the same language, but the project was undertaken for experimental purposes only.

Next on the list are multilingual hotel reservations and travel planning systems. Travellers will be able to book a room or learn a flight time by talking to a multilingual voice-recognition system.

For now, however, options for the linguistically challenged traveller remain limited. Apart from traditional phrase books and dictionaries, there is a web site which carries out free instantaneous translations. Sysran, available on

<http://babel.fish.altavista.digital.com>, allows the user to type in text or the address of a web page.

The good news is that translation takes seconds; the bad news is that the result is only one step up from gibberish.

I fed in a sentence from German instructions for the construction of my daughter's paddling pool and Sysran came back with: "All pins with a screwdriver tighten (not [submersible] fixed, since otherwise the plastic twists itself). All support legs [mussers] even it, and the lining should sit correctly, and without folds."

A sentence from the original French of George Sand's novel *La Petite Fadette* fared even worse: "But, by misfortune, its triumph gave [deceit] has five or six kids who made it dance has the practice, and which, not being able more to approach some, they which never had [etc] proud with it, and which estimated it much for its dance, are reflected has to criticize it, has to reproach him its pride and has to whisper around it."

Not much point in carrying that around a foreign land on your laptop, but, in fairness, Sysran and other machine translations were not designed to replace human interpreters. Where they can be of use is in providing rough approximations of a text that allow the reader to divine the gist of what is being said.

Although not necessarily the endorsement it would want, Sysran is used by the European Commission to translate hundreds of thousands of pages each year.

There are also bureaux which provide machine translations. US-based International Science and Tech-

nology Associates specialises in Japanese patents. "Our clients are mainly chemical companies which have to keep track of the competition," says ISTA president Alan Engel. "This allows them a quick glance at what is inside. In 95 per cent of cases, that is enough; if they need more, they can get a human translator."

The advantages of a machine translation are that ISTA charges roughly \$10 a page of a Japanese patent, instead of \$110 through a human being, and turns the job around within two days. As with most reputable bureaux, ISTA carries out limited checking to weed out the biggest errors. Whether the machine translation is performed by professionals or on a purchased system, simply plugging in the program will merely churn out text the quality of the Alta Vista version of Sysran.

"The secret is to invest time inputting terminology," says Terence Lewis, director of Hook & Hatton, a UK company specialising in technical translation and mechanical translation services via e-mail. The system only becomes efficient when programmed with the precise vocabulary of a specialised sector. Mr Lewis warns this could involve inputting tens of thousands of terms and could take several months.

However, the process can still be more cost-efficient than using human translators, Mr Lewis claims. Aircraft maintenance manuals are increasingly being produced in this way, presumably to a level sufficiently satisfactory so as not to jeopardise safety.

Another option is a translation memory system. This is a data base carrying all of a company's previous translations, which is combed to

see if it contains any phrases in a new document to be translated.

However, Lenni Lewis, a freelance translator who mainly plies her trade for BT, is sceptical of a system purporting to do half the job for her.

"I would much rather get my teeth into the original document," she says. "It is difficult to tidy up unless you know the original language."

A Chinese-whispers type of distortion must also be an inherent risk in any two-stage translation. Responsible machine translation providers always make it clear that their systems should not be used for providing pristine copy to third parties or for other than the most unambiguous types of text. However, professional translators are concerned that some businesses are unaware of these limitations.

"What makes translating different from all other services or products is that the buyer of a translation cannot judge the quality of what they are getting," says Chris Durbin, a Paris-based member of the UK's Institute of Translation and Interpreting. "That is what makes the push-button option particularly dangerous. The client might catch identifiable vocabulary errors but they will not be able to assess the style."

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## Travellers' tales

### Sing a song for silence . . .

**Sarah Murray tells why opera singer Jennifer Smith likes to be kept in the dark**

When Jennifer Smith, the British opera singer, checks into a hotel she is not looking for chocolates on her pillow, 80 channels on the television set, or a supply of personalised writing paper. She wants something that is simple but often hard to obtain - silence. "Any kind of musician needs quiet," she says, "because there's music going on in you're head. People don't realise that."

When she is on a working trip, Ms Smith - a soprano who performs in opera

houses all over the world - is often learning a new piece of music or is in the final stages of learning the operatic role she is about to perform. "Even if you are not consciously studying a piece of music, any noise is an intrusion," she says.

But finding a quiet environment when she is travelling is not always easy. "It's a lottery," she says. "You never know what you're going to get."

In addition to requesting a room in a quiet part of the

hotel - away from lifts, traffic and service areas of the building - Ms Smith travels with earplugs.

"But there are some things that you just can't isolate," she says. On a recent trip to Canada, for example, the Sheraton hotel that she was staying in was holding a weekend party for teenagers. "They were running riot. There was nothing but slamming doors all night. It was really very tedious."

An equally difficult commodity to guarantee - and one that is just as important for a singer - is darkness. A performance of an opera invariably ends at a late hour so a singer's most intense periods of work often take place at night.

"The trouble with singers is that we have such strange hours. We don't go to meetings in the morning, work in the afternoon and then have the evening off. Usually we have to sleep in the morning and work in the afternoon and evening until very late."

On a recent trip to Barcelona, where Ms Smith

was performing the title role in Ariadne, Carl Heinrich Graun's three-act opera, the open-air performances could not start until night had fallen - at about 10.30pm. "Sometimes during the performances we wouldn't get back to the hotel until 2.30am. It was really crazy," she says. "Then I'd sleep until about 12.30 the next day."

The quest for darkness has led the singer to acquire some unusual skills. "It's always a fight," she says. "In Barcelona the blinds in my room didn't work. The silver plastic strips didn't quite close. Luckily I had a collection of safety pins and I pinned the strips together to keep out the light. But then, from my bed, there was one little bit of light I could still see. So every night I hung two dresses in that space to hide it."

The saga did not end there. "There was a window that gave on to people's bathrooms and kitchens all the way down the seven floors of the hotel. And if someone came in at night

and turned a light on, I'd wake up," she says. "So I found a way with more safety pins and some newspapers. It became laughable - every time I'd lie down I'd notice another little bit of light."

Despite such frustrations, Ms Smith - who can be away for up to a month at a time if she is working on an opera - says that she finds these trips "very restful" in many ways. "The house and the children and everything take up a lot of energy," she says. "When I go away for a long period, I see it as a kind of retreat. It's my time, and there are no demands except those made by my work."

When I'm at home I think 'Oh, I've got to water that plant, and worry about things getting dirty.' When she is working overseas, she is often offered a place to stay by the people who hire her. But while she enjoys staying with friends, she says that it is often easier to be in a hotel. "You have no obligations to anyone. You are your own master. The only obligations



Jennifer Smith: "Travel is a lottery; you never know what you're going to get"

Photo: Sarah Murray

you have are to your work." Ms Smith says that part of maintaining the physical fitness needed to perform major operatic roles is being careful with her diet, and she prefers a hotel room which has a kitchenette. "One of the difficulties of travelling is what you eat. If you're used to eating a certain type of food it's hard

to have to depend on restaurants," she says. Unlike many singers, Ms Smith says she likes to have air-conditioning in her room in a hot climate. "It does dry you out," she says, "but it's a choice between two evils, and heat for me is a greater evil than drying out because I know what to do about drying out - I keep drinking

water. If I really dry out then I use a salt water gargle." Ms Smith, a Catholic, always travels with her Russian Orthodox icons and photographs of her family. "It's like having your little cell. It's part of you. When you have photographs and pictures it becomes your own environment."



Anna Zegna: "Travel keeps me energetic and the brain alive"

Oh, no - it's the ravioli yet again!

**Gillian Upton hears a plea for airlines to give a little more thought to in-flight food**

When you're paying upwards of \$2,000 for a man's suit you want the right ambience, style of shop and level of service that goes along with it. Anna Zegna is head of image and communication worldwide at the family-owned Ermenegildo Zegna luxury Italian menswear group, and it is her job to make sure that you part with your money as happily as possible.

Part of the fourth generation of the family to run the business, Anna Zegna roams the world from her Milan base. She checks out the company's 250 retail outlets - both Zegna boutiques and concessions in stores from London's Harvey Nichols to Saks in New York - co-ordinating point-of-sale, the fashion collection and its global image.

Aside from that, she checks up on the competition, takes in a new art exhibition, perhaps, or furniture exhibit, updates herself with new display equipment, absorbs street style, social trends, chats to retailers about what's selling well and less well, and meets the press.

"It's very enriching," she says. "I store everything I see and hear and it emerges elsewhere for various projects."

Her job takes her principally across Europe, but also to the US and Japan.

"I like the travel," she says. "It keeps me energetic and keeps the brain alive and young." The one downside, she says, is being away so much from her two young children.

Anna has a strict routine for flying, avoiding day flights and taking a sleeping pill to see her through the long flight to Japan, for instance. "I read, sleep and drink water. I very seldom eat while flying," she says.

She would like airlines to develop a private area on board with no lights or announcements and for airlines to pay more attention to the food offered. "I had cheese ravioli eight times on various flights

within the US," she recalls. She flies business class on long-haul but economy within Europe.

"I need more space for my legs on long-haul. I like Alitalia for the space, in Magnifica (business) class, but not the service, and I like the service on British Airways."

Anna packs according to her business and social needs but essentials include a summer or winter blue blazer, gym clothes and usually an over-heavy hand luggage bag packed with personal interest books and magazines.

Within Europe she stays in touch with base by mobile phone and fax. "Email is too complicated," she says. "I don't take a laptop - my work doesn't need one - and I still love my old pen." She tries to stay in a hotel with a pool. "Swimming takes away the drowsiness from your body," she believes. Jetlag often catches up with her on day three of a trip. "I overcome it with meditation, relaxing and breathing. It helps me a lot," she says.

Favourite hotels include the Delano in Miami ("cute and funky"), the Mark in New York ("small and cosy, but also service-orientated"), and Dukes in London ("very good cocktails and an Italian barman").

"When you travel on business you have different needs. I hate hotels where they don't have real keys, where they don't know the magazines I like, rooms that are too dark and where it's too trendy. I'd like to try the Mercer in New York's Soho. I love the furniture and feel of it but if it gets to jessy I'd rather stay at the Mark where I feel at home."

London, New York and Hong Kong are her three favourite cities; partly because it means catching up with friends in each of them. Still on the "to discover" list of this much-travelled businesswoman are St Petersburg, India and Argentina. A shop about to open in Argentina should soon cut the list by one.

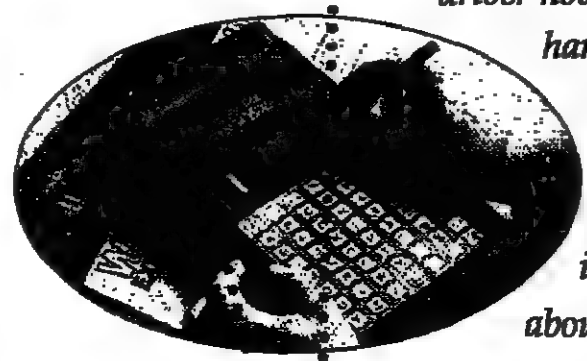


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## THE BUSINESS OF TRAVEL 10

## Getting around: Scandinavia and the Baltics

Financial Times correspondents guide the traveller around some of region's main business districts, offering the first-time visitor and weary globetrotter alike tips to make their journey a little smoother

## SWEDEN

By Tim But

For a population of less than 9m, Sweden boasts a surfeit of large companies and financial institutions that attract business travellers – such as Volvo, Ericsson, Astra, Svenska Handelsbanken and Skandia. Transport, telecommunications and business services are all excellent – as one would expect from one of Europe's more affluent countries – and English is spoken widely in the main towns and cities.

## Visas

Citizens of European Union countries and those of the US, Japan and Switzerland do not require visas.

## Airlines

An extensive domestic route network is served by a clutch of carriers, dominated by Scandinavian Airlines System, the tri-national Nordic airline. But growing competition has emerged over the past year from Braathens, the Norwegian carrier, that has acquired a controlling stake in Transwede and Malmo Aviation. Internationally, SAS, American and Delta all offer direct flights to the US. SAS's membership of the six-carrier Star alliance has also improved onward connections to other parts of the world, mostly through Frankfurt or Copenhagen. Increased competition has also helped reduce notoriously high fares.

## Local transport

A well-developed state railway system offers an alternative to airline connections, with the high-speed X2000 inter-city train connecting the capital with Gothenburg, Malmo and other cities. Stockholm boasts an integrated subway and bus system, and a new high-speed rail link to Arlanda airport is due to open next year. In the meantime, the airport is served by regular express buses and taxis. There is a fixed SEK350 taxi fare between the city centre and the airport, and passengers should insist on paying that before beginning their journey.

## Hotels

All the main business cities have first class and executive hotels, with the SAS Radisson and Scandic chains heavily represented. In Stockholm, those with a larger budget might prefer the Grand Hotel, on the waterfront opposite the royal palace. But there are equally good smaller, and better value, hotels scattered around the city for travellers unwilling to pay the premium.

## Eating out

Gamla Stan, the island old town in the centre of Stockholm, is thick with small restaurants serving international and Swedish cuisine. Dining out is expensive, however. Be prepared to pay SEK1,000 for a meal for two, with only average wine. Some of the best restaurants are concentrated around the Ostermalm district, with the Sturehof among the most famous. But its reputation is greater than its food, and it has been let down by a truly terrible refurbishment.

## NORWAY

By Valeria Skold

Norway is famed for its legendary fjords and endless miles of cross-country skiing tracks. Oslo is the political and financial capital, the west coast city of Stavanger is the centre for oil companies, while Bergen, Norway's second-largest city, is considered the cultural capital.

## Visas

Visa are not required by visitors from Europe and the US unless they plan to stay for more than three months. Other nationalities should check with their local embassies.

## Airlines

Braathens is the largest domestic airlines and the second largest airline in Norway after its Nordic rival Scandinavian Airlines System. Most leading European airlines also offer a daily service, main airport is presently in Fornebu, just 20 to 30 minutes outside Oslo. But this changes on October 8 when the new airport opens in Gardemoen, more than an hour outside the city. Taxes will be charging as much as NOK600.

## Local transport

Competition between airlines has in some instances made it possible to fly more cheaply than using the national railway system, NSB, or buses. The mountainous inland east-west routes and small, winding coastal roads can make driving times long and arduous, but are worth the trouble on smaller stints for their beauty and opportunity to spot the occasional moose. There are also numerous ferries playing routes between Norwegian coastal cities and the main Scandinavian ports.

## Hotels

The highest quality hotels in Oslo are still the Hotel Continental and Grand Hotel, situated on opposite sides of the central street, Karl Johan, in between the Norwegian Parliament and the Royal Castle. Both are within walking distance of shopping and the city night life and a short taxi ride to most businesses outside the city centre. Also centrally located, SAS Radisson has mar business hotels by the railway station and downtown Oslo. It also has premises in most of the main Norwegian cities.

## Eating out

Central Oslo offers a large number of dining possibilities. The pier area, Aker Brygge, offers everything from fine fish restaurants, such as Lofoten Fiskerestaurant, to continental European cuisine. There are a number of fine French restaurants in the Frogner area of Oslo. Bagatelle and Le Canard currently being among the most popular. Le Canard offers the possibility of private dining in its exclusive wine cellar. In Stavanger, Jans Mat & Vin Hus and Caf de France offer good food.

## FINLAND

By Tim But

Finland, the former grand duchy of Russia, will end the century holding the presidency of the European Union. According to government forecasts, it will also approach the millennium enjoying strong GDP growth, modest inflation and relatively low interest rates. Alone in the Nordic region, Finland has decided to become a founder member of the European single currency. Increased links with Brussels, coupled with the international development of the country's telecommunications, shipbuilding and paper industries has led to a sharp increase in international business traffic. Finnish speaks most linguists, so English is commonly spoken, even in outlying areas.

## Visas

European Union citizens do not require visas. There is also no requirement for visas for visitors from the US, other parts of western Europe or Japan.

## Airlines

Finnair, the partially-privatised

national airline, offers extensive domestic and international services from Helsinki. It also serves Stockholm from Turku, in the west, and other outlying towns. Recently, SAS has increased its challenge to Finnair by acquiring Air Botnia, the small Finnish regional carrier, and by increasing flight frequencies from other parts of the region. Finnair has responded by designating Stockholm's Arlanda airport as its second international hub after Helsinki, serving destinations such as Manchester, Madrid and Brussels from there. The Finnish carrier has also signed a code-sharing agreement with British Airways, offering improved inter-continental routings from Helsinki, via London.

## Local transport

Helsinki offers well developed road and rail links with all parts of the country, which operate smoothly year round in spite of harsh winter conditions. An ageing but efficient tram system rattles round the capital, while most other towns offer an integrated bus and local rail network.

There is no rail link to Helsinki's Vantaa airport; passengers must rely on bus or taxi links.

## Hotels

In spite of the usual smattering of SAS Radisson and InterContinental hotels, Helsinki is not blessed with many top-class places to stay. In terms of business services, the best option is probably the Strand InterContinental near the city centre. But for pure opulence, travellers might consider the small Palace Hotel built for the summer Olympics in 1952.

## Eating out

Helsinki's poor showing in international hotel standards is more than offset by excellent restaurants. The Cosmos, founded in 1924, is one of the best places to find traditional Finnish and Russian cuisine, such as dried reindeer meat. It is not gourmet dining, but substantial nonetheless. Further upmarket, the Strindberg serves world class nouvelle cuisine, and the Havisamanda probably the best fish in town.



The Little Mermaid in Copenhagen appears high on the list of attractions for most visitors to the city

## DENMARK

By Hilary Barnes

In Copenhagen one is rarely more than 10 minutes walk from the main government offices, the head offices of the big banks, the royal palace of Amalienborg, the parliament, the offices of the large commercial and industrial organisations and the trade unions, or the main museums and the Tivoli amusement park. The city owes much of its charm to the fact that the lay-out of the centre has changed little since the 18th century, although most of the buildings are 18th century or later.

## Visas

EU nationals, nationals of the Baltic states, Hungary, Poland and the Czech Republic, nationals of the US, Canada and Japan do not need visas. Visitors from all African countries, Russia, the former Soviet republics, and some Asian and South American countries do. Check with the local Danish embassy.

## ESTONIA

By Matal Viootnik

With a touch of paint applied to its medieval buildings, and dozens of new cafes and restaurants peppering its narrow, winding lanes, Tallinn's old town has regained its former splendour. It is a compact place, and most hotels, banks and government ministries are within a few minutes walking distance of each other. For all its charms, however, Tallinn is a small town. Trips to the pristine countryside or the islands offer a good break from the capital.

## Visas

Citizens of Scandinavian countries, the nationals of the US and UK and several east European countries can enter Estonia without a visa. The nationals of some EU countries can obtain 90-day visas at the border for about DM100. The holders of a valid visa for Latvia or Lithuania can enter Estonia without a visa.

## Airlines

Copenhagen's Kastrup international airport is the hub for Scandinavian Airlines System. It is served by all the leading European and American airlines and many of the leading Asian ones. The domestic terminal, for flights to the main Jutland cities, is a short bus ride away.

## Local transport

Copenhagen taxi drivers are closely regulated and honest. It is 15 minutes from the airport to the city centre and, depending on the time of day, costs about \$30 to \$25. The airport bus to the central station costs DKK50. There is a good local bus system (have DKK11 ready for a short journey) and efficient rail services to suburban areas.

## Hotels

Hotel d'Angleterre is the most

prestigious, as well as the oldest, of the centrally located hotels in Copenhagen, while the SAS Radisson Royal, the Palace, the Plaza, the Phoenix, and the Admiral are other central hotels popular with business people. The SAS Radisson Scandinavia is just off-centre on the way to the airport.

## Eating out

There are plenty of good restaurants in the centre of Copenhagen. Konrad's is the latest in-place for deep pockets. St Gertruds Kloster, Kommandanten, Pascal, and Philippe can all be recommended. None is cheap. Turkish, Greek, Italian and Chinese restaurants offer meals at modest rates. For a local speciality, try Danish lunch restaurants for variations on smørrebrød, or Danish open sandwiches.

## Hotels

For business facilities, pick the 26-story Olympia. The Scandinavian-owned hotel has several restaurants and a lap pool overlooking the Baltic sea. The Palace, on the edge of the old town, is convenient for its proximity to business and government buildings. For charm, pick the Park Consul, a renovated 18th century building on a cobbled sloping side street in the old town. Prices at the three hotels start at about DM130.

## Eating out

Most hotel restaurants serve decent fare, especially fish. For a pre-war atmosphere and local cooking, Grandma's Place (Vanasauna Jures) is a favoured destination in the old town. There are also a number of reasonably good ethnic restaurants in town, including Indian and Chinese.

## LATVIA

By Matal Viootnik

With its art nouveau architecture and sprawling old town, Riga has a somewhat pre-war atmosphere. Riga is the biggest city in the Baltics, and the engine of Latvia's economic growth. Many foreign companies have located their regional offices in the city.

## Visas

Citizens of the US, UK and Scandinavian countries can enter Latvia for up to 90 days without a visa. Others must apply for a visa at the local Latvian embassy. Fees range from \$15 to \$80. The citizens of some countries may have to present a letter of invitation.

## Airlines

Riga has good connections with Helsinki and other Scandinavian capitals. Swissair and Austrian fly direct from Zurich and Vienna to Riga several times a week. Air Baltic, the local carrier, flies western-made aircraft on direct routes to London and capitals in the region.

## Local transport

The 15km taxi ride from the airport to downtown Riga costs about \$14. Cab drivers are not necessarily eager to use a meter, so it may be best to negotiate the price before you leave, or pick a licensed taxi. If your company travel department believes you are wasting money on frivolous taxi rides you can experience Riga's public transport by taking bus No 22 into town for 30 US cents.

## Hotels

The SAS Radisson, which sits across the river Daugava facing the old town, sets the standard in Riga as far as business facilities and service goes, with rooms starting at about \$130. It has an excellent restaurant and pool. In the same range, Hotel de Rome generally lives up to its pretentious name. There are other hotels in the old town with rooms starting at about \$80.

## Eating out

Fish is always a good bet in Riga. Zivju Restaurant in the old town has a wide selection of fish and lobster, plucked right out of an aquarium. Or try the elk steak in the wood-paneled Otto Schwartz, on the seventh floor of Hotel de Rome.

## LITHUANIA

By Matal Viootnik

Vilnius is a slow-paced European city, and its large, church-strewn old town is perfect for getting lost. Most businesses, banks, and government offices are located on or around the central Gedimino street. Lithuania has been slower in liberalising its economy than Estonia or Latvia but it is making valiant efforts to catch the EU-bound bandwagon.

## Visas

Citizens of the US, UK and several European countries do not require a visa. EU citizens can secure a visa at the border for \$20. The visa list is constantly changing so it is best to contact the local Lithuanian embassy for details before travelling.

## Airlines

British Airways, Lufthansa, and SAS have direct flights into Vilnius, while Lithuanian Air has jetted-on Tupolevs for Boeings and flies direct to London, Kiev, Moscow and Tallinn.

## Local transport

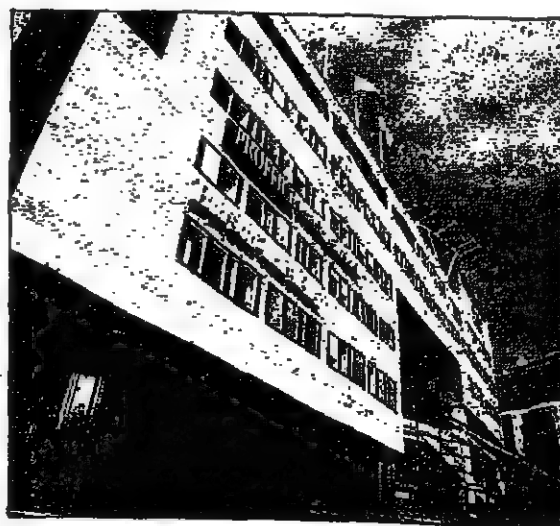
Local taxi drivers tend to be somewhat unpredictable in their choice of route and charging structure, so it may be best to hire a licensed Ekspres taxi at the airport. The 10-minute ride into town should cost about \$5, or you can take bus No 2. Downtown streets are usually clogged with traffic – it may be faster to walk.

## Hotels

The new SAS Radisson, housed in a restored turn-of-the-century building, is a notch above the rest, with rooms starting at \$150. The Stiklial, on a cobblestone street in the heart of what was once the Jewish quarter, also has rooms starting at \$150.

## Eating out

The kitchen at the SAS Radisson is manned by a former cook to the Queen of Denmark, and it shows. The restaurant at the Stiklial is very good, too. There is a variety of ethnic restaurants, including Georgian, Italian, and Indian, and one cannot go wrong with meat and potatoes in a Lithuanian restaurant.



The World Trade Centre in Stockholm

Photo: Veronica Gerout

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## Getting around: Scandinavia and the Baltics

If your business trip spans a weekend you might have the opportunity to explore some of the pleasure of your host country. Here FT correspondents offer some suggestions

### Arriving in Stockholm with some Viking style

Tim Burt find his sea-legs at the beginning of his tour of the Swedish capital

The old wooden vessel groaned on the swell. A few wooden platters of food slid across the deck, but the dragonhead prow soon righted itself and turned towards the archipelago.

Rickard Engberg smiled broadly, lifted a roughly-fashioned horn and sounded the departure from Stockholm of Svea Viking, the world's largest longship.

For Engberg and his business colleague Steffen Lyrestam, the launch this summer of the 39-metre vessel marks the end of an odyssey linked to a period in history more than 1,000 years ago.

The two sailing enthusiasts decided in the mid-1990s that Sweden and its capital should have a flagship to celebrate its Viking heritage.

Although some historians and media critics have scorned their efforts, they have spent the past two years converting a wartime ferryboat - which saw action in the D-Day landings - into a replica longship.

"It has almost killed us, but it is quite something to launch the largest Viking ship seen in hundreds of years," said Engberg.

He has been hurt by criticism in some Swedish newspapers that the duo have created little more than a floating theme restaurant. Sweden has never been a country of cheerful entrepreneurs but this is one tourist project

that deserves to succeed. Given the number of visitors ready to sail on the Svea Viking, whether on its spartan wooden deck or in its cavernous oak hold, Engberg and Lyrestam believe they will have the last laugh - even if they do not become rich in the process.

Watching the envious glances of passengers on passing sight-seeing boats, it soon becomes clear that Viking heritage still exercises a powerful tug on tourists' sentiments. But whether travelling by longship or modern commuter ferry, many of the passengers share a common destination - the Stockholm archipelago.

The city, sitting on the edge of the Baltic Sea, is the gateway to a collection of 24,000 islands and skerries, many of them no more than granite pinnacles marooned in the ocean.

For some Swedes, the only genuine archipelago experience is to spend a week or two isolated in an austere wooden hut on one of these outcrops. The absence of home comforts such as flushing toilets or central heating helps one discard - they argue - the veneer of modern life, rather like a snake shedding old skin.

Thankfully, that has not been a view shared by everyone. Knut Wallenberg, for one, clearly thought the back-to-nature brigade were



Sailing in peace: Rickard Engberg with his Svea Viking longship, constructed from a second world war ferryboat

Photo: Pär Lagerkvist

a few crackers short of a full smorgasbord. More than 100 years ago, the director of Stockholm's Enskilda Banken and member of the Wallenberg dynasty decided that what the archipelago

really needed was a grand hotel. So he built a white-towered palace, drawing on his holiday memories from Monte Carlo, which happily remains open today. The

Grand Hotel at Saltsjöbaden, inaugurated by King Oscar I in 1883, commands a handsome position at the centre of Baggen's Bay. It is separated from the city centre by about 10 miles and 50 years.

Much as Mr Wallenberg hoped, it offers a convenient and somewhat un-Swedish escape from Stockholm. Certainly, the gilt-edged dining room is more Versailles than Velasquez, and the first floor cocktail bar smacks more of the palm court era than some slick Scandinavian bistro.

The fact that the Grand has seen better days - the carpets are threadbare in

places and the gilt peeling away - enhances the feel of a Mediterranean hideaway. If anything, it is like a rather haughty old aristocrat, trying to keep up appearances in spite of the ravages of time.

Indeed, the only nouvelle thing about the place is the cuisine. But many visitors would probably prefer something more substantial than the isolated nuggets of fish or fowl served on a huge white platter - even if it does taste splendid.

In any case, there is an altogether more wholesome eatery tucked on the waterfront, just around the corner. And the Guln Pavilion-

gen restaurant is heavier on the stomach and lighter on the wallet than the Grand.

It is, moreover, only a short stroll across the bridge from Restaurantholmen, the tiny island that is home to Saltsjöbaden's Frihustad, a historic swimming area.

In 1912, the rickety wooden amphitheatres were the site of the Olympic swimming events. Spectators these days are trowed upon as the open air bath houses, one for women and one for men, are supposed to be swimsuit-free zones.

Although shielded discreetly from the mainland, the flesh laden terraces offer

a full frontal view to the passing yachts and cruisers. But this being Sweden, no-one much cares. Nakedness has been divorced from sex and swimmers come to the baths to do just that - swim.

Even in mid-summer, however, the water temperature at Saltsjöbaden is enough to remind you why the Vikings left more than a 1,000 years ago in search of warmer climes.

Diving into the Baltic in nothing but nature's wetsuit suddenly brings to mind the meal consumed a few hours earlier on the country's latest longship. It was cold meat.

### Back to the beaches

Balts are rediscovering the unspoilt beauty that has long lain hidden in Soviet era security zones, says Matej Vipotnik

The Baltic states have traditionally been Moscow's window to the west. Riga was tsarist Russia's top commercial port, and by the 1930s newly-independent Estonia and Latvia had become prosperous trading republics.

But the Balts' contact with the sea was severed when Soviet forces occupied the region during the second world war. To prevent locals from fleeing, Stalin's troops scuttled most seafaring vessels. Swathes of coastal territory became restricted military areas, with bunkers and flashlights scanning the horizon for incoming invaders and outgoing Balts.

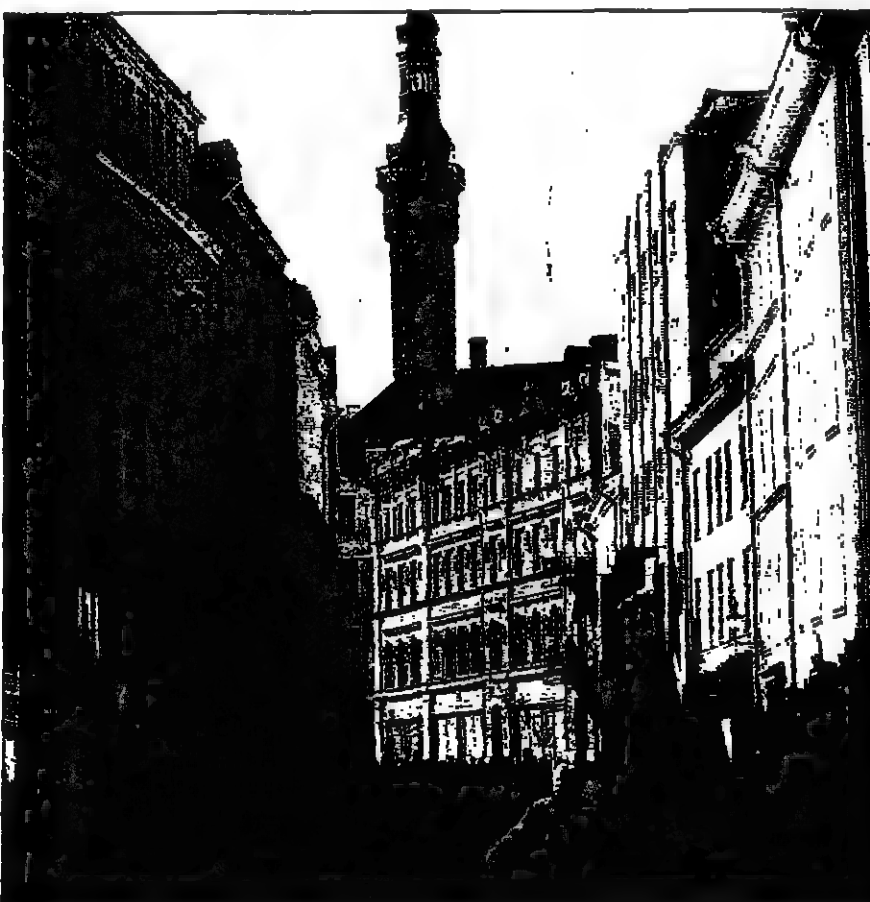
It was not until the collapse of the Soviet Union that the Balts could once again indiscriminately venture to the beach and bask in the sun. There remained the occasional pile of rubble where bunkers had stood, a few standing observation posts, stripped bare by the departing Red Army, and a few scuttled submarines off the coast.

That aside, the high cliffs and sandy beaches were hardly violated. No camping sites, picnic tables, or garbage dumps spoiled the seashore. Nor has the coastline changed much since independence, and indeed it remains a must-see for Baltic travellers.

Tallinn's old town, with its many churches on narrow cobbled streets is charming but it is also small and can be traversed left and right in an afternoon. A trip to Estonia's islands is the solution for the visitor.

Ferries for the islands leave from Hapagsalu, a couple of hours drive south of Tallinn. About 10km from the coast lies Vormsi, the smallest of Estonia's four large islands. A ghost island after its mainly Swedish population fled in 1944, it today has a few hundred permanent inhabitants. At a mere 83 sq km, travellers can revel in Vormsi's pristine nature during a bicycle excursion.

Hiumaa is Estonia's second largest island, but it is also sparsely populated. Because of limited population transfers during Soviet times, it is said the island has retained the values of old, independent Estonia. The 11,000 or so locals, most of whom live on the coast, are reputed on the mainland to be easygoing and courteous.



Tallinn offers attractive sight-seeing, but the visitor may find more of interest out of town

ous - habits that were diluted on the mainland by the inflow of immigrants from the East.

Saaremaa, the largest island, shares Hiumaa's old world atmosphere. The island was once a restricted military zone hosting a radar installation. Foreigners could not travel to Saaremaa, and Estonians needed a permit to visit the island. Interspersed in the densely wooded landscape are farms and plenty of ruins from centuries past. The old capital, Kuressaare, sports a 14th century castle, and settlements on the island have been traced back several thousand years. Determined visitors can scout for Saaremaa's sandy beaches.

Legend has it that Napoleon said Riga could be a suburb of London. It is not clear whether the remark was intended as a compliment, but Riga's old town is certainly a happy mixture of styles. Its neo-classical and art nouveau architecture still captivate travellers. The austere and colourful facades of the old town are in sharp contrast, however, with grim housing blocks on

Riga's outskirts, built during Soviet times. In the summer, Riga's proletariat flees the squalor to loll in the sun on the beaches of Jurmala, a half an hour drive away.

Jurmala was once a favoured destination of communist Soviet apparatchiks, who travelled there to take the waters in thermal baths. These days Jurmala seems on an upswing, and many of its charming wooden houses have received a touch of fresh paint. The sea water is also renowned to have improved in spite of the fact that Riga's raw sewage flows into the sea just a few kilometres from the resort.

For cleaner waters, it is advisable to head westward into the Kurzeme region. To begin with, the coast is dotted with small villages, where the gardens of lovely farmhouses extend right up to the sea. The further you go, however, the fewer people you will meet. Sparsely populated, the thickly forested north-western tip of the region was in Soviet times a closed military region.

It is perhaps in Lithuania

that the most spectacular swathe of beach in the Baltics can be found. It is a peninsula, called the Curonian Spit, or Neringa, running parallel to the Lithuanian coast. Formed about 5,000 years ago by sand accumulation in shallow waters just off the mainland, the peninsula begins in Kaliningrad, and runs northward for about 100km. Reaching up to 66 metres height at certain points the highest sand dunes in Europe this remarkable area is nowhere more than 4km wide.

Accommodation can be found at three villages on the Lithuanian side, a favoured destination being the fishing village of Nida, with characteristic thatched-roof houses. Thomas Mann spent three summers in one of those houses in the early 1930s, writing *Joseph and His Brothers*.

It is perhaps difficult to find many good things to say about the Soviet Union but the creation of vast closed military areas did at least conspire to preserve the environment of some of the Baltic region's most scenic spots.

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## Technology



## It's so easy to stay in touch

Paul Taylor looks at some of the portable gadgets which help keep busy travellers up to date with events while on the move

The rapid adoption of the internet and e-mail as a vital form of business communications has made it even more important to stay in touch while travelling. After all, returning to the office after a trip to find megabytes of unprocessed e-mail is not much more appealing than returning to a mountain of paper.

Indeed, the provision of "anywhere, anytime, anyhow" access to corporate information technology resources, including databases and in-house intranets for an increasingly itinerant workforce has become an important business objective for many IT managers.

Fortunately, during the past decade, a wide range of electronic gadgets has been developed to make this dream more achievable.

These devices range from notebook portable PCs and pocket sized machines such

as Psion's Series 5 machine, to devices such as Nokia's Communicator, which combine the attributes of both PCs and digital telephones.

Perhaps the biggest add to keeping in touch while on the move has been the development of digital wireless telephone networks, including those based on the GSM (Global System for Mobiles) standard.

GSM networks have been built across Europe and in many other parts of the world, enabling business travellers to use a single handset and 'roam' from one country to the next. Since these networks were launched in the mid-1990s, almost 100m GSM handsets have been sold around the globe, including some such as Motorola's StarTac device which fit in a shirt pocket.

While GSM was primarily designed for voice communications, it also supports digi-

tal messaging using the Short Message Service, thereby enabling a GSM phone to be used as a sophisticated two-way alphanumeric pager.

In the Nordic region in particular, the SMS feature is being used to deliver services such as telephone banking, electronic commerce and e-mail forwarding.

GSM networks have also proved a reliable and particularly flexible alternative to fixed-wire data communications for sending and receiving information both for portable PCs and the new generation of hybrid devices such as the Nokia Communicator which combine both telephone and PC functions.

Even more powerful pocket communicators are expected to emerge from the recently announced Symblon partnership which brings together Psion, the UK-based pocket PC group, and the

leading telephone handset manufacturers, Motorola, Nokia and Ericsson. While these machines will highlight the increasingly rapid convergence of digital telephony and computing, some users will probably prefer to use separate GSM handsets and portables.

Traditionally, portable PCs and cellular telephones have been linked using a PC card modem and a cable and adding to the bag of wires and connectors that most portable PC 'road warriors' need to carry.

However, during the past six months, several alternatives have emerged, including the use of infra-red communications to connect the handset and PC and the development of PC card phones which you can plug directly into the PC card slots in portable machines.

The portable PC market itself is changing rapidly. Portable PCs have firmly

established themselves as mainstream business tools, helping companies and other organisations to boost customer service, improve productivity and provide additional workforce flexibility.

Meanwhile, the business traveller no longer has to make do with portable PCs that suffer from disadvantages over their desktop counterparts. During the past year, the performance gap between desktop machines and their portable counterparts has narrowed considerably.

The latest machines from market leaders such as Toshiba, Compaq and IBM are now powered by the Pentium II microprocessors and equipped with big 14-inch colour screens and high speed CD-Rom drives.

Some companies are even replacing desktops with portables, often sold with docking stations or port replicators enabling them to plug into corporate networks easily. For example, Dell Computer, whose highly successful 'Latitude' notebooks have helped the company climb to the top tier of mobile computer vendors leaders, says that almost three-quarters of its machines are sold with port replicators.

As portable PC makers scramble to differentiate their products, there has also been a proliferation of types of machines. One marked trend is towards ultra-thin machines such as those launched recently by Mitsubishi, Hewlett-Packard and Sony. Most of these machines are supplied with multi-tier bases enabling the user to add CD-Rom drives and multimedia functions to the machines when they are used in a fixed location rather than on the move.

Other manufacturers have taken a different approach towards reducing the size and weight of portable PCs. Toshiba's sub-notebook Portege machine provides the ideal compromise between functionality and size for many travellers, while its Libretto machine packs the power of a Windows desktop into a package about the size of a paperback novel. However, business travellers whose computing requirements while on the move are limited to basic office functions such as e-mail, meeting scheduling, diary functions and looking up or updating a contacts list, the new generation of handheld devices could provide the solution.

Psion, which helped pioneer this market segment with its Series 3 machines, is still winning awards for its latest generation of pocket PCs including the Series 5. However, the UK-based group now faces more competition from companies such as 3Com, whose Palm III organiser has just been launched, and from a flood of handheld PCs and Palm PCs built around Microsoft Windows CE2 operating systems designed to augment rather than replace a desktop machine.

These CE2 machines include models from Hewlett-Packard, Compaq, Sharp, LG Electronics and Philips and provide the user with a familiar Windows-style interface and software which enables them to exchange data with a desktop PC easily.

But for the ultimate in portability, the Rotodex Electronic Fax is hard to beat. This credit card-sized device includes a contact book, diary and other features and is designed to fit into a PC card slot for updating.

## Diary

Date	Event	Venue	Contact
Oct 1	Identifying and managing custody risk	London	+44 (0)171 637 4348
Oct 1-2	Meeting of 5 gas in Russia conference	Moscow	+44 (0)171 637 4348
Oct 1-2	Water waste technology trade fair	Stockholm	+46 70 25 92 06 0
Oct 1-2	Technical subcontracting exhibition	Milan	+39 2 48 55 01
Oct 1-11	Int'l equity show	Paris	+33 1 53 23 07 40
Oct 3	Spichers' cash conference	London	+44 (0)171 637 4348
Oct 6-7	Exit routes for private cos. conference	London	+44 (0)171 730 0022
Oct 6-8	Petroleum, gas, petrochemistry exhibition	Paris	+33 1 46 65 18 34
Oct 6-8	European facilities management trade fair	Brussels	+32 2 778 99 40
Oct 6-8	Power station management conference	Amsterdam	+44 (0)171 637 4348
Oct 6-9	GlobalTronics exhibition	Singapore	+44 (0)181 910 7741
Oct 6-9	Telecom Russia	Moscow	+7 203 834 1122
Oct 7-9	Business security conference & exhibition	London	+44 (0)171 727 7380
Oct 7-9	Risk analysis conference	Valencia	+44 (0)1703 293223
Oct 7-12	Book fair	Frankfurt	+49 69 2102 0
Oct 8	Company investor show	London	+44 (0)171 256 5364
Oct 8-10	Refrigerating & air conditioning exhibition	Nuremberg	+44 (0)1293 416266
Oct 9-11	Franchise exhibition	Birmingham, UK	+44 (0)181 742 2828
Oct 14	Finance directors' conference	Eastbourne	+44 (0)171 633 3291
Oct 14-15	Measurement technology exhibition	Berlin	+49 5333 7057
Oct 14-15	Brussels Business Days	Brussels	+32 2 675 00 48
Oct 14-16	Packaging, labelling & storage exhibition	Nuremberg	+44 (0)1293 416266
Oct 14-16	Int'l building exhibition	Bologna	+39 51 28 21 11
Oct 15	High-yield debt market conference	London	+44 (0)171 436 5735
Oct 15	Building management roadshow	Dublin	+44 (0)1825 859486
Oct 15-17	Cabling systems telecom expo	Paris	+33 1 49 88 51 00
Oct 15-17	Graduate recruitment fair	Birmingham, UK	+44 (0)1823 433633
Oct 15-17	Building & insurance exhibition	Warsaw	+48 22 49 6006
Oct 15-17	Landscape conference	Leeds	+44 (0)1535 806139
Oct 15-18	People and health fair	Basel	+44 (0)171 886 3000
Oct 15-18	Investment & management congress/fair	Vienna	+43 1 727 20
Oct 17-25	Motor show	Berlin	+49 30 30380
Oct 17-25	Int'l franchising show	Valencia	+34 96 385 1100
Oct 20-21	Independent power generation exhibition	London	+44 (0)1737 786811
Oct 20-22	Business information exhibition	Bucharest	+40 1 223 11 60
Oct 22	Proposing & using a business plan conference	London	+44 (0)171 730 0022
Oct 22-23	Investing in Iranian oil & gas conference	London	+44 (0)171 637 4348
Oct 22-23	EC packaging waste directive summit	London	+44 (0)1872 802000
Oct 27-28	Design for business exhibition	London	+44 (0)171 287 5678
Oct 28-30	Management buy-outs conference	London	+44 (0)1892 537474
Oct 29-30	Int'l insurance & risk management conference	Rome	+32 2 543 2100
<b>NOVEMBER</b>			
Nov 4-5	Financial controllers' conference	Berlin	+32 2 543 2100
Nov 5-6	Doing business in Uzbekistan conference	London	+44 (0)171 637 4348
Nov 6	Euro VAT conference	London	+44 (0)171 637 4348
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**NORTH SEA SORE**  
Low prices produce  
that sinking feeling  
pages 1-3



**FINANCIAL TIMES REVIEW**  
**FACING EXTINCTION**  
Climate change, fossil  
fuels and the alternatives  
pages 4-6



**LAND OF OPPORTUNITY**  
In south Asia, demand  
far outstrips supply  
page 7

# WORLD ENERGY

Thursday September 10 1998

The only thing lower than prices is morale. It is time, writes **Robert Corzine**, for the industry to show its mettle

## Oil in troubled water

Tough times" is how most executives would describe current conditions in the international oil industry. With crude prices languishing in the \$12-\$14 a barrel range, companies in Europe and elsewhere have seen their cash flows - the main determinant of exploration activity - plummet, along with profits.

Against a backdrop of growing global economic uncertainty, traditional investors in the industry have become jittery, a development reflected in the relatively low share prices of most companies in the sector.

The widely held expectation that Saudi Arabia and other key members of the Organisation of Petroleum Exporting Countries (Opec) would somehow bail out the industry has waned in recent weeks, as oil prices once again wallowed near fresh lows for the year. In recent days calls for industry-wide action to contain costs have become louder as

executives ponder the unwelcome thought that prices could stay low for a prolonged period.

In the absence of a significant supply disruption in a significant oil producing state, many observers believe it will take some time before the overhang of crude oil and refined product inventories that is depressing prices will be pared back to more normal levels.

In Europe, long seen as one of the higher cost oil areas, the gloom surrounding the oil price has been compounded by uncertainty about government attitudes towards the mainly offshore oil and gas industry. Over the past year new governments in Norway, Europe's biggest producer and the second largest crude exporter in the world, and the UK have unsettled the industry.

In Norway the new government said it wanted to rein in the pace of expansion in the industry, which was



threatening to destabilise the non-oil economy. With 30 years of reserves, Norway is in an enviable position. But companies argue that it must continue to expand into the more remote and technologically challenging areas to maintain its position.

Although Norway, in common with other oil producing states in northwest Europe, is seen as a high cost producer, the prospect of finding large fields has ensured continued interest in the country's offshore sector. But this year's price falls have

undermined confidence. Marit Arnstad, Norway's oil minister, recently acknowledged that "the present oil market situation is characterised by uncertainties and unrest".

Norway's main response to falling prices has been a renewed emphasis on technology, although the strategy has produced mixed results. Although new technology should help the country to extract 5.3m barrels of additional oil from the Norwegian shelf, there have been more than a few failures,

especially with the floating production systems that have become increasingly popular in recent years in spite of teething problems.

The Balder field being developed by Esso has been delayed and is expected to cost an additional Nkr1bn when it finally comes on stream in 1999, while Statoil's Aegard project is now expected to cost Nkr3.8bn, rather than the original estimate of Nkr2.7bn.

Norsok, the industry-wide initiative to cut costs, has been

partially successful, although Gunnar Berge, director general of Norway's oil directorate, has recently questioned whether the industry has succeeded in finding the best way to organise alliances between the oil producers and their contractors.

Such sentiments are echoed in the UK, where a similar initiative - known as Crine - has been in existence since the last price collapse in the early 1990s. Although it was formed to bring down the costs of development through common practices and

standards, many believe its greatest achievement has been to break down some of the barriers that existed between oil companies and their contractors.

As in Norway, few believe those relationships are as open and trusting as they could be. "The industry has changed and for the better," says Syd Fudge, head of the Offshore Contractors Association, the trade group for offshore fabricators and suppliers. "But there is a long

Continued on Page 3

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# The North Sea: UK

UK • by Robert Corzine

## Activity no disguise for high anxiety

Behind the serenity suggested by busy yards and rigs there is much concern

Low oil prices and uncertainty over the tax plans of the government have taken their toll on the UK's oil and gas industry this year.

Outwardly, the industry is working flat out. There are no signs of drilling rigs being stood down and, although some workers are being laid off in the offshore contracting industry, many yards remain busy.

But below the surface there is a high degree of anxiety and uncertainty that will be only partially lifted by the government's decision this week to cancel plans to increase offshore taxes. Although it removes one big source of uncertainty, there is a separate review of Britain's energy sector that could still have a big impact on future developments offshore.

Fears of tax changes arose last March with the first phase of the offshore tax review, in which the government said it was not happy with the regime. At present new fields are liable only for corporation tax. The Treasury said it was looking at two options - the imposition of a supplementary corporation tax and the re-introduction of the profits-based petroleum revenue tax, abolished for new fields in 1983.

Since then the industry has waited impatiently for a promised consultation document. But this year's collapse in crude prices caused the government to re-think

its tax strategy, according to Treasury officials.

It is not clear, however, that the industry will be wholly reassured by the government's actions. Many executives had hoped that the government would offer continuity over the next few years by promising not to tamper with the tax regime. Some executives say North Sea operators may remain reluctant to invest in the absence of such clarity.

That reluctance is reflected in drilling statistics. Rebecca Gregory at consultants Arthur Andersen says that, although rig utilisation rates are running at close to 100 per cent, there has been little exploration activity, with most drilling confined to development wells. There have been only 29 exploration wells drilled this year, compared with 48 at this time last year. Appraisal drilling is also off sharply, with only 16 such wells completed so far against 26 last year.

The industry's reaction to the government tax initiatives produced some interesting results. A series of studies revealed the extent to which the industry perceives the wider economy, with 400,000 jobs directly or indirectly dependent on the offshore sector.

One study also showed how sensitive the industry is to a drop in activity. The OCA estimated that a 20 per cent drop in sales to offshore oil and gas producers "would lead to more than 40 per cent of UK supplier companies reducing employment".

Another study suggested that the UK offshore sector was not as financially attractive as many executives had thought. The study, commis-



Gone south: uncertainty about tax regimes and alternative fuels has made the UK industry wary

sioned by the oil industry as part of its campaign against new taxes, showed the UK offshore sector to be less attractive when "full-cycle project costs" were compared with six other mature oil-producing countries.

The tax debate has not been the only dispute between the industry and the authorities. Companies have also had to contend with a government review on the country's future fuel mix. Natural gas producers have been especially incensed by government plans to restrict new gas-fired power plants in order to save jobs in the coal industry.

An industry-commissioned report by consultants Arthur D Little suggested that the Treasury could lose £1.8bn in North Sea taxes if the government curbs the growth of gas-fired power stations. The figure corresponds to the loss of revenues over the lifetime of 13 field development projects which may not go ahead if the government intervenes on gas-fired power stations, according to the study.

It also suggested that the overall economic impact will be much larger if the government implements restrictions. The delayed capital investment in new fields is estimated at about £1.7bn,

with lost operating expenditure in a five-year period totalling £200m. A slowdown in growth of the UK gas market would reduce spending on offshore exploration by £700m.

Whatever the outcome of the remaining policy dispute, the industry appears to have learned one painful lesson from the confrontation. There is little public or political sympathy for, or understanding of, the industry and its wider role in the UK economy. Nor is there much appreciation of its potential as a technology-based export earner.

"The government doesn't understand the contribution of the industry in its totality," says Syd Fudge, head of the Offshore Contractors Association. However, much of the blame in this regard must be laid at the industry's door.

COST REDUCTION • by Meg Chesshyre

## Crine does pay

The UK offshore industry pooled resources to everybody's benefit

The Cost Reduction Initiative for the New Era (Crine) sounds like the kind of jargon beloved by company doctors - for whom it would translate as job losses - or spin doctors - for whom it would translate as a cut in funding. In fact it is the UK offshore oil industry's co-operative cost reduction programme set up in 1992 with the aim of achieving a 30 per cent reduction in the cost of North Sea projects.

The initiative reflected a feeling that there was scope to bring together pockets of technology and to address the issue that the only interface between the contractor and the oil company was at the adversarial bidding stage. As a result of improved working relationships the 30 per cent goal has been achieved and there are hopes that Crine will produce a 40 per cent saving.

The Crine Network evolved out of Crine to move the initiative on to other parts of the business. It set a target of increasing the UK's share of the global oil and gas market, outside the UK North Sea, to 5 per cent, or £2.5bn, by 2003. In 1997 the figure rose to 2.4 per cent from 1 per cent in 1996.

Export successes include two significant overseas projects run from the UK - Kvaerner Oil & Gas's contract from the Sakhalin I Consortium for assistance in building the \$1bn production platform for the Arktutun Dagi field offshore Sakhalin Island in eastern Russia and Brown & Root's contract for the provision of facilities for the Amerada Hess-operated South Arne development in the Danish sector. The Wood Group, as part of a consortium, has also been awarded a 16-year contract, valued at £200m, by the Venezuelan state oil company, PDVSA, to help boost oil production from Lake Maracaibo.

"The North Sea can either wait for the oil price to bail it out or deliver the Crine

goals," says Francis Gugen, managing director of Amerada Hess and current chairman of the initiative. In the current low oil price environment, Gugen sees two initiatives as key to ensuring the industry's survival - halving the cost of offshore drilling and improving the supply chain from the contractor to the customer.

There is no question that the UK has to become more competitive if its oil industry is to survive. The goal is to extract more value for every dollar spent on drilling because well costs now constitute between 50 and 60 per cent of the spend on a project. The number of fields that can potentially be developed goes up exponentially as the costs come down.

There are three key elements to improving well costs. The first is achieving better definition of what is required so that the chain from the geologist and geophysicist to the driller becomes more effective. The second involves maximising the use of existing technology and the third involves technology which still has to be developed.

There is increasing awareness of the importance of the supply chain. Most of the money operators spend is via others. It is important to create an environment that permits a constructive dialogue between contractors, suppliers and customers.

Crine has used a Department of Trade and Industry survey on the performance of the supply chain and a consultant is to be appointed to carry out specific research into methodology. A survey was also carried out at the end of last year on waste and best practice within the well construction and maintenance areas.

Work is also under way to develop a 10-year oil technology fund of £20m, with £5m to come from large companies in the North Sea oil and gas industry and £15m from financial institutions. From this fund early and later stage investment will be made across a portfolio of small to medium-sized enterprises (SMEs), which are developing "breakthrough" technologies.

The uncertainty engendered by the government's delay over the fiscal review is slowing progress in this area as it is difficult to persuade people to invest with "a sword of Damocles" hanging over them.

Work is also in hand on supporting the writing of international standards for the offshore industry (ISO TC67), with funding in place to ensure that UK interests are well represented. The aim is that the standards produced should be suitable for the UK industry and the way it conducts its business and give UK manufacturers, contractors and operators equal access to the world-wide industry.

Another Crine achievement has been to deliver a set of standard contracts. The trick now is to encourage people to use them.

Also up and running under Crine is the First Point Assessment programme, which provides a register of suppliers and contractors to subscribing oil and gas companies (both operators and contractors) which use the database as their first stage of qualification in the selection of tenders for contracts subject to European Commission rules. The database has around 1,500 supplier records to which 24 operators and 13 contractors subscribe. However, there is still work to be done to maximise the effectiveness of the system.

Another initiative has been to set up simplified and lower cost insurance.

The latest Crine success story is the Britannia gas and condensate field, developed by Chevron and Conoco, where cost savings of as much as \$400m were achieved applying the Crine culture of teamwork and openness.

Britannia came on stream at the beginning of August, having achieved savings of 20 per cent from an original budget of £1.55bn. The same Crine philosophy has benefited projects such as BG Exploration & Production's Armada field, which came on stream last autumn on schedule and £107m less than the original budget of £537m.

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## Oil in troubled water

Continued from Page 1

way to go." There is little long-term dialogue between contractors and customers.

Crine is now focusing on bringing down drilling costs to maintain the pace of activity in the North Sea.

A combination of low oil prices and uncertainty brought about by several government reviews of the UK energy sector, including an inquiry into its tax regime, has had a marked impact on exploration activity in the UK sector.

The number of exploration wells being drilled is down by about half this year, with most companies concentrating on drilling development wells. Francis Gugen, managing director of Amerada Hess in the UK and the current chairman of Crine, says halving the cost of drilling

and improving the efficiency of the supply chain between contractors and oil companies are essential if the UK offshore sector is to survive, let alone thrive.

In the course of combating government efforts to increase offshore taxes the industry has looked at itself in a new light and it has proved to be less flattering than the commonly held view of the industry. Although the UK has had a reputation in the international oil industry for being

"The North Sea can either wait for the oil price to bail it out or deliver the Crine goals," he says.

Other industry executives, such as Pierre Jungels of Enterprise Oil, Britain's biggest independent explorer, have recently called for even more industry-wide initiatives to bring down the cost base of the North Sea.

But the UK government's attitude toward the industry may also prove crucial in determining its future. The prolonged tax review and a separate inquiry into future fuel needs for power generation has produced a degree of anxiety and uncertainty distinct from the unease over the oil price.

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among the most financially attractive areas in which to invest, new industry-sponsored studies suggest it is less favourable when the total costs of doing business in the UK sector are taken into account.

Other studies have shown that the pace of new field development in the UK will be curtailed sharply if the government follows through on policies to save jobs in the coal mines by restricting the construction of new gas-fired power stations.

The psychological damage done to the UK's reputation as a result of the government reviews is impossible to estimate, especially as the country's role in the international oil industry is not confined to the offshore sector. In recent years London has become the centre of the international oil industry. Although only two of the big integrated oil companies - Royal Dutch/Shell and British Petroleum - are based in London, many companies have established their headquarters for Europe, the Middle East, Africa and the former Soviet Union in the city. But the growth of London

as an oil centre and the health of Europe's oil industry generally depends to a large extent on prices. Many analysts predict the slump will probably continue until the fourth quarter of the year when a combination of Opec output cuts and the onset of the northern winter should erode surplus stocks and push prices higher.

But the volatility of stock markets in recent weeks and the sense of spreading gloom through emerging economies has called into question some of the more bullish forecasts. Although all oil companies believe prices will improve, there is a clear sense of retrenchment in the sector, as executives seek ways to survive what many fear may be a prolonged period of low prices.

In the past some executives observed that the oil industry only makes real progress in tough times, when technical, commercial and managerial innovation comes to the fore. Given the present economic outlook, they will probably have plenty of time to prove whether such observations are correct.

### The oil picture

Oil's competitive value against coal (\$/t)



Average

Oil price

Best crude 2-month forward (\$ per barrel)

World demand

Non-Opec supply

Opec crude supply

Oil supply and demand (million barrels per day)

Oil price

Best crude 2-month forward (\$ per barrel)

World demand

Non-Opec supply

Opec crude supply

Oil supply and demand (million barrels per day)

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## The North Sea: Norway

NORWAY • by Valeria Sköld

### Buoyed by well of good fortune

With another 30 years of reserves there is little concern about the long-term

Norway's Marit Arnstad, energy minister of the country's second largest oil and gas producer, the Norwegian Petroleum Directorate, has already felt the pinch. It reported a 44 per cent decline in its first-half profits compared to last year following a sharp decline in oil price. Similarly, Saga Petroleum reported a decline in operating income in the first four months of the year. Even Norsk Hydro, Norway's second largest oil company, saw weaker results for oil and gas than its second quarter operating income.

Each of the companies is dealing with the eroding profit situation in a different way. While British Petroleum and Amoco recently combined holdings in the largest industrial merger, Norway is not following suit. Diderik Schnitler, Saga Petroleum's chief executive, says the company is not considering a merger with Statoil, the state-owned oil company, even though Statoil has recently purchased Norsk Hydro's shares to become the majority shareholder in Saga.

"We will continue to work closely with them on a project basis but that is not due to them being a shareholder," Mr Schnitler says. Saga has begun to deal with the low oil price through a massive restructuring plan, announced in May, when Mr Schnitler succeeded as president and chief executive officer after Asbjørn Larsen's 19-year reign. As part of a three-point strategy of "ruthless prioritisation" Mr Schnitler vowed to reduce the company's exploration budget by Nkr300m, sell at least Nkr500m of interests on the Norwegian and UK shelves and reduce its staff by 200 by the end of 1999.

Nevertheless, oil companies have sought approval for investments totalling an unprecedented Nkr85bn on the Norwegian shelf this year. Faced with an overhanging economy, Mr Arnstad was pressed in March to postpone investments by one year in 12 offshore oil field projects, including Saga

that we should be well prepared for sustained periods of weak prices," added Johan Nic Vold, Statoil executive vice president in a later presentation. "The challenge, of course, is to avoid low prices having low profits as a consequence."

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partly by a greater degree of outsourcing.

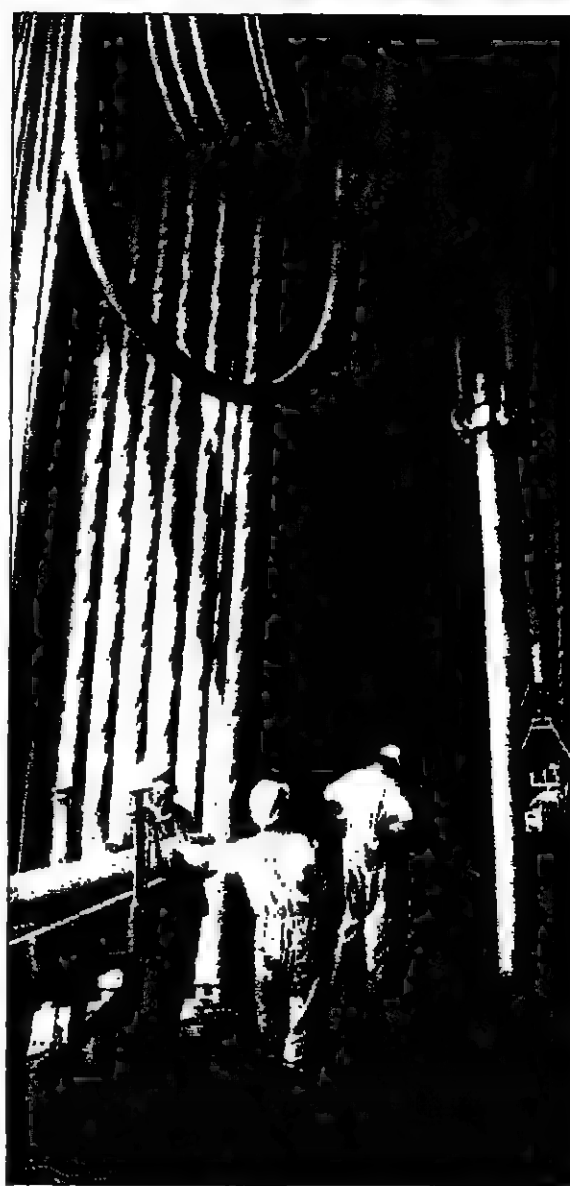
Statoil underwent what was described as its "last big restructuring before the year 2000" in 1994 and has come to rely on technology rather than cutting its staff or budget, according to Stig Bergeth, executive vice president. The company is in the process of redesigning its administrative procedures so as to implement a single computer system across the company. Strategically, it is focusing more on core activities and is in middle of programme called Score (Statoil-core) which aims to improve hydrocarbon recovery through better drilling accuracy.

Technological advances in oil recovery techniques should be able to extract a total of 5.5bn barrels of additional oil from the Norwegian shelf - half of the crude sold by Norway since 1971, according to the latest figures from Norway's oil directorate.

But the downside of the rush toward cost-effective field development solutions in the past years, including floating production units, has been some setbacks and cost overruns. Project costs have also increased because of pressure for spare capacity in Norway, which has only about 2 per cent unemployment.

The result has been debates such as Esso's Balder field in the North Sea, which is delayed to 1999 and expected to come in Nkr5bn over budget, and Statoil's Asgard project in the Norwegian Sea which will cost Nkr3.5bn rather than its originally anticipated cost of Nkr2.7bn.

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Deeply reserved Norway can look forward to at least another 30 years of oil production

Petroleum's Snorre II development in the North Sea. More recently, Mr Arnstad announced that the government was setting up a special committee to explore the reasons behind the significant cost overruns in Norwegian projects in spite of cost-cutting initiatives by the industry. Those initiatives were embodied in Norsk, a forum born in 1992 bringing producers and suppliers together to explore ways of improving efficiency in the Norwegian oil industry. Norsk will be the vehicle for the committee exploring cost overruns, a fact which will not be universally well received. Whilst Norsk produced efficiencies it also created ill will. Although Norsk has been able to substantially reduce costs in the industry, says Gunnar Berge, director general for Norway's oil directorate, spokesmen from Norwegian suppliers have pointed out a backlash with respect to the supplier's motivation for long-term investments and participation in new technology. "Perhaps it is time to evaluate whether the industry has established the best models for successful alliances based on clearly defined and mutually agreed objectives," he says.

PROFILE Statoil

### Venezuela to Vietnam

Since Statoil's humble beginnings in 1972 as a state oil company founded to exploit and manage Norwegian offshore oil reserves, the company has branched into trading, shipping and refining and transformed into an international operator.

The company ranks third in net crude oil sales behind Saudi Arabia's state oil company, Aramco, and Iran's NIOC. It is the largest producer of gas in the Appalachian mountains of the eastern US and, for first time in its history, capital expenditures in exploration outside Norway this year outstripped investment levels at home.

Now, the company is preparing to kick into its next phase: building up its global oil and gas output to make it a 1m barrels per day (b/d) company by the year 2005. As part of its latest strategy, Statoil plans to triple its current level of non-Norwegian oil and gas production to 300,000 b/d. By 2010, this figure will peak at about 500,000 b/d of oil and gas.

"Twenty five years ago we were set up to produce oil in the North Sea," says Johan Nic Vold, Statoil executive vice president. "In 1980, we saw production in the North Sea was falling off. If we wanted to maximise value creation we had to go global. The BP/Statoil alliance sped up the process."

The BP-Statoil alliance was initially created in 1990 with the intention of co-operatively exploring and developing new fields in the countries of the former Soviet Union and offshore China, Vietnam and west Africa. Since then, the partners have grabbed a foothold in what is believed to be one of the largest offshore oil discoveries outside the North Sea - the Azeri/Chirag field development in Azerbaijan.

After an initial investment of \$1bn by the Azerbaijan International Operating Company (AIOC) and its western partners, including Statoil, the



Slick operator: Statoil's alliance with BP in Azerbaijan gives it a foothold in one of the largest offshore oil discoveries

Norwegian oil company is entitled to 8.6 per cent of the field's 75,000 b/d. The field, which has been producing oil since November 1997, is expected to reach 300,000 b/d this year. At a total cost of \$10bn to develop the 4bn b/d reserves through several phases, the project will be the most cost intensive of Statoil's international activities.

"Azerbaijan will require a lot of capital to develop the fields, pipelines and infrastructure but the upside is that they are very large fields," says Mr Vold. Statoil's next most capital intensive field development overseas will be the \$2.75bn Girsol project offshore Angola. French oil company Elf Aquitaine operates block 17, which contains the 725m barrel field, along with the Delta and Rosa discoveries. Statoil will reap 13.3 per cent of Girsol's oil output once the field starts production in 2001. Further north in block 15, Statoil holds a 13.3 per cent stake in Exxon's Kungo, Klesanje and Marinka oil discoveries, which are expected to be developed soon.

Elsewhere, the Norwegian company plans to focus its international and exploration efforts in Venezuela. Here in Chevron's Maracaibo prospect, situated in a lake, the company has hopes of enhancing oil recovery tenfold to 100,000 b/d.

Vietnam will also be important but there is a challenge in bringing the gas into the market because of the local authorities, Mr Vold says.

In its second tier of importance, the company will prioritise the Atlantic Margin of the North Sea and the Gulf of Mexico. Statoil also intends to develop deepwater reserves offshore Brazil, which was only recently opened up for international competition by the government.

And then there is Russia. The company has made a significant breakthrough in the troubled country by signing a co-operation agreement with Gazprom in the Timan Pechora Sea.

Meanwhile, Norway is home to its most capital intensive of projects. Statoil, together with partners, will spend approximately Nkr36bn on the Asgard field development in the Norwegian Sea thanks, in part, to a series of cost overruns on the project. The Norwegian continental shelf also outstrips all of its field developments combined in production and should continue to do so until the year 2010. But, with so much overseas investment, will non-Norwegian oil production levels ever challenge domestic output? "Well," says Mr Vold, "Never say never."

Valeria Sköld

DECOMMISSIONING • by Meg Leitch

### Why old rigs are not old dogs

When their life cannot be extended, old platforms can learn new tricks

The Brent Spar debate changed the course of platform abandonment history. Shell's dramatic U-turn in 1995 on dumping the redundant storage buoy in a deep Atlantic site and the decision in July this year by European environment ministers to ban the disposal at sea of steel oil and gas platforms have created a new ball game for the offshore oil industry.

Yet, even before these events, offshore operators were pursuing ways of extending field life and delaying for as long as possible the expensive process of decommissioning.

In the UK, for example, the North West Hutton, Heather, Maureen and Auk fields, operated by Amoco, DNO, Phillips Petroleum and Shell respectively, are still producing beyond previously expected depletion dates as a result of ever improving reservoir understanding and management. Shell's Brent redevelopment and Phillips' recently completed Ekofisk II project in Norway will substantially extend the life of both fields.

Prior to July's meeting in Portugal of the Oslo Paris Convention (Ospar), which affects the marine environment of the North Sea and North East Atlantic, regulatory guidelines called for installations in less than 75 metres of water and weighing less than 4,000 tonnes in the surrounding deck and superstructure, to be totally removed.

ban, with effect from February 9, 1998, the dumping and topping of all steel platforms in the North Sea, although the bottom sections of existing installations weighing more than 10,000 tonnes may be allowed to remain on the seabed in exceptional circumstances.

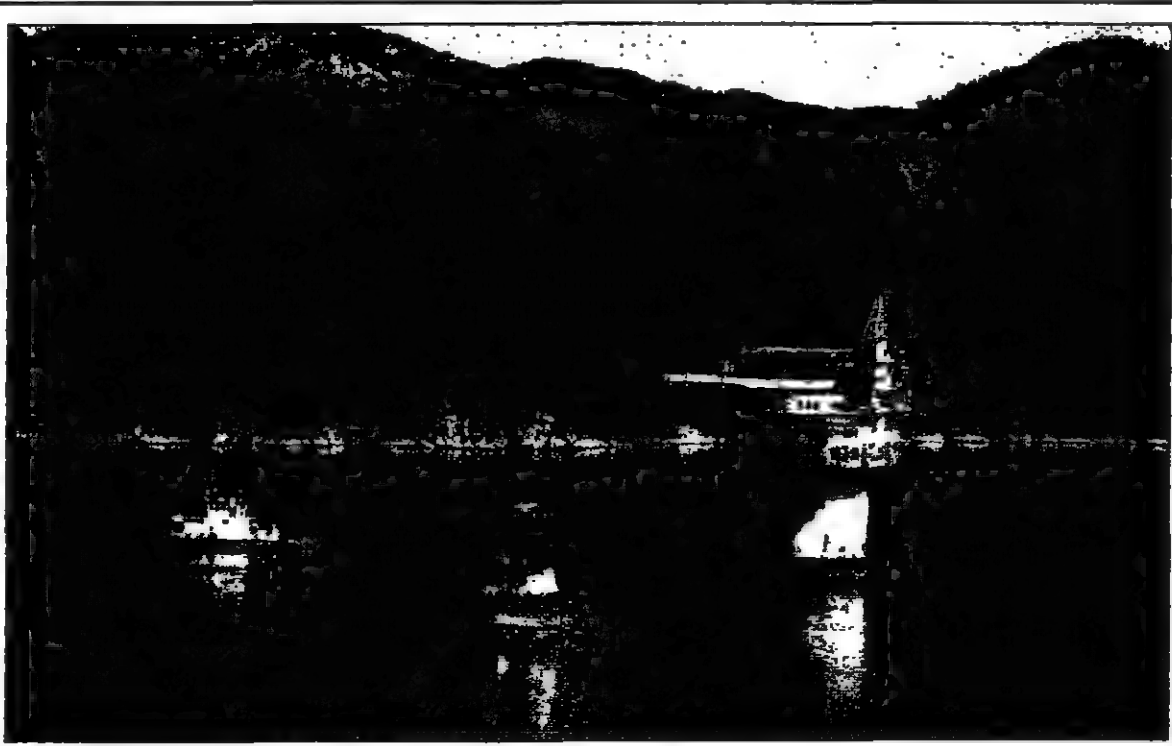
Although concrete structures are likely to be allowed to remain in situ, all new steel structures placed on the seabed must be removed entirely. The decision is likely to compel operators to seek ever ingenious ways to prolong platform life.

Over the next 25 years the international oil and gas industry faces the challenge of decommissioning 8,500 offshore installations, varying in size from small, single well structures in the Gulf of Mexico to large and heavy platforms in the deeper waters of the North Sea.

Industry calculations estimate that to decommission all the installations worldwide will cost more than \$20bn. Of this, it is estimated that some 50-60 per cent will be spent in the North Sea and north-east Atlantic, where only 5 per cent of the total number of installations are located.

In the North Sea and north-east Atlantic there are more than 200 steel platforms in less than 75 metres of water, about 150 steel installations in more than 75 metres of water and 23 concrete gravity base structures in deep water. In the UK, it is estimated that a minimum of \$2.4bn will be spent decommissioning some 50 installations over the next 10 years, while in Norway the cost is put at around \$7.5bn.

By the end of 1997, around 27 offshore installations had been decommissioned in the North Sea. Of these, 15 were steel and, with the exception of Esso's Odin platform in



Small shock: the untidy saga of Brent Spar was a turning point in platform abandonment

Norway, they were small, lightweight structures in the UK southern sector.

The remaining installations were floating production systems, storage units and subsea installations. All have been re-used or removed to shore for recycling and disposal.

The timing of the cessation of production depends on production rates, current and future oil and gas prices, operating costs, fiscal policy and the regulatory regime. Operators are continuously seeking for ways to prolong the production life of fields by adopting new technology, new operating methods and alternative uses for installations.

One emerging trend has been operators selling ageing infrastructure to smaller, perhaps independent companies, for whom the remaining production from a field offers a more useful income stream, or bringing in contractors to take over the management of the asset. In 1996 Talisman bought BP's interests in the Beatrice, Buchan and Clyde fields and Chevron completed the sale to Oryx Energy of its interests in Ninian, Hutton, Lyle and Murchison.

Talisman and Oryx backed their judgement that there were a number of investment opportunities around the facilities that would extend field life and create value. Last year Unocal sold the Heather field to DNO.

US contractor Halliburton Energy Development had been in talks with Amoco to acquire North West Hutton and become operator of the 15-year-old field. However, discussions were halted last month with the declining oil price cited as a factor in the failure of the two sides to reach agreement.

Amoco recently carried out 3D seismic studies over North West Hutton and is waiting for the results to be assessed before determining plans for the future of the field. Studies on decommissioning are being carried out in parallel. Halliburton said it had the expertise to extend production from the field until at least 2003.

Much of the focus of new technology is on the increased application of subsea production systems and floating production systems, such as tension leg platforms (TLPs) or ship-based units. Developments in seismic activity are also helping

to achieve more accurate reservoir definition.

If the life of a platform cannot be extended there are a number of options for removal and disposal. The best for each installation depends on factors such as the type of construction, size, distance from shore, weather conditions and the complexity of the removal operation, including the

safety considerations of the workers.

In most cases topsides will be taken to shore for recycling. It is the substructure, which normally contains no oil or other residues, where the choice is critical. One of the most successful examples of recycling redundant installations has seen their use as artificial reefs.

Research is under way

worldwide into the effects of artificial reefs, including in the Moray Firth in Scotland, partly funded by the European Union.

The most extensive and successful rigs to reefs programme is in the Gulf of Mexico, where some 90 platforms (about 10 per cent of those decommissioned) have already been placed as reefs in permanent disposal sites, ranging in water depth from 30 metres to 100 metres and located 50-200 miles offshore.

Although the industry has considerable experience worldwide of removing smaller steel structures, there are particularly difficult challenges in removing large steel and concrete installations in the deep waters of the North Sea and north east Atlantic.

Phillips, the frontrunner in terms of its experience of decommissioning, is evaluating options for 14 redundant platforms in the Ekofisk field, involving the removal of around 120,000 tonnes of steel. A cessation plan for the platforms is expected to be submitted to the Norwegian energy ministry in the middle of next year, with approval from the authorities possibly emerging in 2001. Under Norway's tax regime, the state will fund about two-thirds of the cost of the chosen solution.

Phillips is looking at possible re-use options for the platforms, including the arti-

ficial reef concept. It plans to award a contract this month for a market survey which will determine the value of the redundant structures.

In the UK, Phillips is seeking a buyer for the Maureen steel gravity-based installation. Provisional plans suggest the structure will be removed in 2000. It will be dewatered and towed to a deepwater location after which Phillips will decide if the structure will be redeployed or abandoned.

Agip is also looking for a buyer for its UK Balmoral field floating production system, bids for which were recently submitted to shipbroker EAGIBSON. However, the operator has asked contractors to evaluate options for continuing production from the field, which is expected to remain viable for at least another three years. Provided it can find a buyer for the Balmoral unit, Agip plans to lease a semi-submersible for the remaining life of the field.

As markets such as the North Sea begin to mature, the issue of decommissioning becomes increasingly important. Against the background of oil price volatility and continuing environmental pressures, the offshore industry is likely to pursue ever more active reservoir and platform management in the new millennium.

Meg Leitch is editor of the FT North Sea Letter

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## The future: supply

The oil industry faces unprecedented change as consumers, and governments, demand cleaner fuels. Its reaction, says Robert Corzine, will determine its future

## The message is in the mix

Two things the international oil industry can depend on are change and uncertainty. Over the next few years those two elements are likely to figure even more prominently than they have in the past.

The challenge will be compounded by the widening range of issues facing the industry, from the often unpredictable evolution of technology to rapidly changing energy markets, which are increasingly being influenced by equally unpredictable political factors.

Social pressures are also bearing down on the industry, which is being forced into roles which were inconceivable just a few years ago. Uncertainties abound. These include conflicting theories about resource availability and the prospect of another oil crisis in coming years.

One area where many of these factors come together

is in the debate over future fuel standards and types.

The broad trends in the industry are relatively clear. Natural gas, for example, is making deep inroads into traditional oil markets, especially for power generation. Although very low oil prices over a prolonged period could slow the substitution of gas for fuel oil in some countries, environmental factors alone suggest that gas will continue to be the fuel of choice for greenfield power generation projects in most parts of the world. The need for countries to meet new targets to reduce emissions of greenhouse gases should encourage even greater use of gas to generate electricity.

Another clear trend is the shift towards the "whiter" or "cleaner" parts of the oil barrel. Figures from the International Energy Agency, the Paris-based group that monitors world

energy markets on behalf of the industrialised countries, illustrate the trend. In 1982 US demand for residual fuel oil - the "blackest" part of the barrel - was running at 1.72m barrels a day. By last year it had fallen by more than half to just 800,000 b/d.

The IEA statistics also highlight the steady demand in all regions for transport fuels. Gasoline demand in the US - the biggest oil market - rose from 6.54m b/d to 8.01m b/d between 1982 and 1997.

But even though such trends are clear, what is less discernible is the specific type of fuels that will be demanded by consumers and, perhaps more importantly, by governments, in the years ahead.

Over the past decade or so there has been a steady trend towards cleaner fuels, with refiners having to progressively reduce the quantity of pollutants, such as

sulphur or aromatics, in gasoline and diesel. But as Jeremy Hudson, an oil analyst with brokers Salomon Smith Barney in London notes, the fuel standards being considered for implementation in the US and Europe around 2005 are such "that to make any further movement from those quality levels may be technically very difficult".

The problem is compounded by the emergence of new energy technologies that could quickly overtake conventional fuels.

Bernie Bulkin, director of environmental affairs at British Petroleum, believes one big challenge will be to move the debate away from "tinkering" with detailed specifications, to a point where people focus on "what new technologies are coming forward and what will be required to make them more efficient".

The advent of vehicles powered by fuel cells illustrates the complexity of the issue facing the industry. All the leading international vehicle manufacturers are working on fuel cells, with some, such as Mercedes-Benz, working toward an ambitious timetable of having production vehicles available as early as 2005.

The challenge of translating fuel cell technology into commercial, mass market vehicles is considerable. But the pace of technological change is such that oil companies can no longer dismiss such targets as merely fanciful thinking on the part of the car industry. "Fuel cells are a big question mark," says Mr Bulkin. "But if they happen it makes investment in other fuels look sick."

The problem is that there is no common standard for fuel cells. Nor is there agreement on the fuel that would be best to power them. Mr Hudson believes oil companies are likely to pair up



Fuelling the debate: car manufacturers are exploring alternatives to oil

with motor manufacturers as the technology matures to push specific technology/fuel variants. But as Mr Bulkin notes, that raises the spectre of "somebody winding up with Betamax fuel".

But fuel cells are not the only uncertainty. Technology to convert gas to liquid fuels offers the prospect of exceptionally clean and virtually sulphur free diesel and other middle distillates,

such as jet fuel. Once again, different companies are pursuing different technologies. But optimum combinations of technologies are likely to emerge in the next few years as they join forces to establish commercial projects in areas with large volumes of low cost gas.

The cost of building such plants is coming down rapidly to the point where they would be competitive with

new refineries. But the big question is whether consumers and governments will be willing to pay the premium that companies say they require to make large-scale investments in gas-to-liquids viable?

As Mr Bulkin observes: "It will be politics and technology that dictate where we will be in terms of fuel standards and types in the next decade."

## The crisis is confidence, not supply

The Middle East will not take the world back to the 1970s, says Mike Charnley-Fisher

Warnings of a 1970s style oil supply crisis reflect deep-seated fears about the ability of the Middle East to control oil supply and price.

But the bargaining position of the Middle East has changed significantly over the past two decades with the biggest single factor in that change being the dramatically increased ability of the world to substitute for the region's oil should the Middle East try to raise prices. Alternatives could not be sourced over night but they could be found.

On the supply side gas reserves and the infrastructure to transport them are now available across Europe, especially from the countries emerging from the former Soviet Union.

The Asia Pacific coast is also building regional and national gas transportation infrastructure (for example, planned pipelines from the gas region around Sakhalin Island and the high pressure distribution network in South Korea) and the move away from long-term LNG contracts in the region may be partly explained by this emerging opportunity.

The proximity of China to the reserves in Siberia has not gone unnoticed. Lastly, the ability of the world to quickly develop commercial scale conversion plants should not be underestimated.

On the demand side, the turbine technology now employed to generate power has much greater flexibility in terms of choice of fuel and the scale required to be commercial. Witness the rapid growth of small independent power producers (IPPs) around the world. And alternative fuel options are also becoming available in the transportation arena.

Other factors - new entrants to the energy supply market, the strength of the buyer community (assisted in part by global communications), the relative weakness of the supplier side of the equation and the highly competitive nature of the industry - all serve to suggest that oil prices will be market, rather than politically, driven. The inability of Opec nations to co-operate until oil prices fell to recent levels confirms this assertion. This presents a much changed scenario to that of the 1970s, the only constant is the importance of oil to the Middle East.

Oil revenue has to sustain and build the infrastructure, provide

security and meet the demands of the people of the Middle East. But it is clear that the Middle East is struggling to maintain the status quo in terms of public expenditure, national security and domestic stability under current oil prices.

Nevertheless, a politically driven short-term price increase by the Middle East would inevitably speed up the pace of fuel substitution, particularly by gas. This would have a detrimental medium-term impact on the Middle East market share of energy supply.

Moreover, the picture regarding global production levels is not as bleak as the crisis-mongers make out. A slightly more optimistic view of reserves and, largely due to the current global economic slow-down, a more pessimistic view of demand suggests a later peak in oil production than is predicted by those fearful of a supply crisis.

It is unlikely that we will see another oil crisis of the type seen in the 1970s. Rather, the evidence supports the US Department of Energy's Annual Energy Outlook 1998, which concluded that oil prices will stay at less than \$20/barrel for the next decade and that supplies will be maintained beyond 2020.

However, complacency would be dangerous. Warnings of Indonesia style anarchy have featured in the newspaper headlines in some Middle East countries. The loss of production from any one of them would have severe repercussions.

Warnings of an imminent crisis are exaggerated but oil is likely to run short within the lifetime of our children. Governments must increase regulatory pressure to preserve what remains. Unfortunately, a global environmental crisis - such as the movement of the Gulf Stream southwards - seems most likely to force concerted action.

In order to maintain market driven, versus politically driven, oil pricing, it is essential that long-term investment in non-oil fuels continues. Short-term economic pressures to delay expenditure until the future is more certain and over-supply, across the energy spectrum, is met by demand must be ignored.

And, alongside investment in alternative sources, the Middle East should be encouraged to increase oil production capacity since this should begin to redress imbalance between reserves and production and provide greater long-term energy supply stability.

Mike Charnley-Fisher is energy consultant at Ernst & Young

*They wouldn't have survived their migration  
if they couldn't have stopped at their feeding grounds;  
they couldn't have stopped if construction  
on a nearby power plant had scared them away;  
the construction wouldn't have waited  
if not for the engineers of ABB.*

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# The future: climate change

ENVIRONMENT • by Vanessa Houlder

## In the eye of the storm

The world's energy producers are at the centre of the debate on climate change

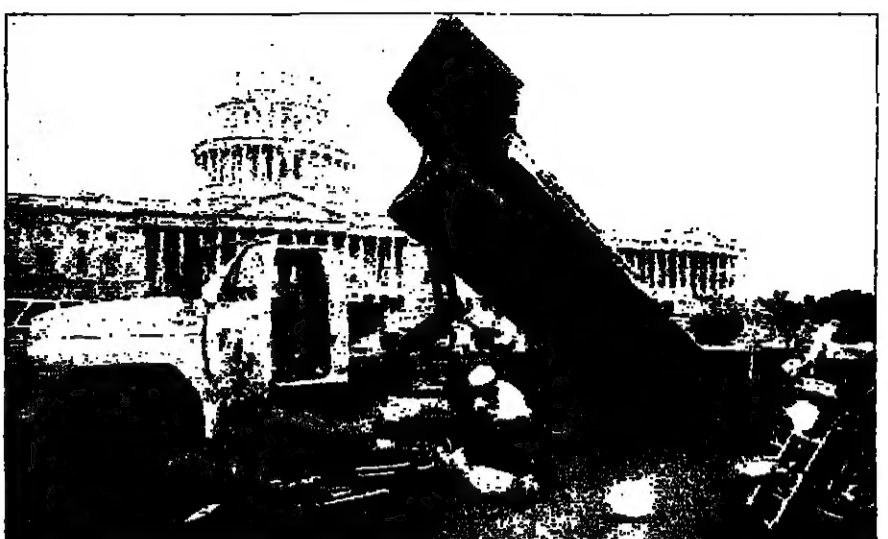
The record-breaking temperatures of the first six months of 1998 were greeted, in some quarters, as evidence of the need to curb carbon dioxide emissions from fossil fuels. By trapping heat in the atmosphere, it is feared that these 'greenhouse' gases could lead to a spate of disasters across the world, including floods, storm damage and crop failures. But there are few certainties when it comes to global warming. Its causes and consequences are hotly debated; so too, are the best ways of tackling it. The world's energy producers are, inevitably, at the centre of this debate. But the full impact of the global warming issue on their businesses may take years, or even decades, to emerge.

Much will depend on the progress of international policymakers in agreeing legally binding cuts in greenhouse gas emissions. Then there is the matter of whether, and how, governments meet their obligations and the potential for replacing fossil fuels with renewable sources. The pace of introduction of the controls on greenhouse gas controls will differ markedly around the world. At the Kyoto summit last year, the European Union, the US and Japan agreed emission reduction targets from 1990 levels of 8 per cent, 7 per cent and 6 per cent respectively between 2008 and 2012. For others, the targets allow for substantial increases in emissions from 1990 levels. Differing approaches will be taken by the main industrialised countries to meeting their targets. The US is placing heavy reliance on international emissions trading. This idea - which has not yet been agreed in detail - is that those industrialised

countries that reduce emissions beyond their agreed target can sell their excess emissions credits to others. Europe is likely to favour regulation and taxation. Several countries, including Denmark, Sweden and the Netherlands, have already adopted carbon and energy taxes, some of which give exemptions to encourage renewable energy sources. Japan is likely to build on voluntary agreements with industry to enhance its energy efficiency, which is already well in advance of either the US or Europe. Within the energy sector, the implications of climate policies vary considerably. Natural gas producers may benefit from attempts to reduce carbon dioxide emissions. "In the short-term, climate policies favour a fuel shift along a chain from coal to oil to natural gas," according to a recent study by the Paris-based International Energy Agency. The displacement of coal-fired power plants with efficient

gas-fuelled turbines is a relatively quick, cheap way to reduce emissions. The biggest loser is expected to be the coal industry which has a particularly bad pollution record. In some places, the reliance on coal has already been reduced. In Germany, for example, the forced shutdown of inefficient, coal-based industries and power plants in the eastern states, together with energy policy reforms, cut emissions by 7.6 per cent between 1990 and 1996. Oil companies are also being targeted in the effort to reduce emissions. Greenpeace, the environmental group, is attempting to impede the exploration work of oil companies in frontier areas. It argues that opening up new reserves will prolong reliance on hydrocarbons and delay a shift towards renewable energy. Some of the large oil companies, such as BP and Royal Dutch/Shell, have sharply increased their investment in renewable

energy. But the commitment to renewable sources does not obviate the necessity of continued exploitation of oil reserves, they say. Most, if not all, of the world's oil and gas reserves will be needed to meet energy needs while large scale renewable energy sources are developed. At the same time as developing alternatives, energy producers are attempting to reduce their impact on the environment. Carbon sequestration - in which the gas is captured and stored in underground or undersea saline formations - is an idea being pursued. For large consumers of fossil fuels, climate change also has important implications. They are being exhorted to improve their energy efficiency as the most important way of reducing emissions. Voluntary agreements are likely to play an important role in the industrial sector. The European Automobile Manufacturers' Association has agreed to cut carbon dioxide emissions on new



Coal-fuelled protesters are pressurising governments to abandon fossil fuels

cars by 25 per cent by 2008, compared with 1985. Progress will be reviewed in 2003 with a view to lowering emissions still further. Despite the ambitious targets being pursued by some countries, there is little pretence that arresting carbon dioxide emissions will be easy. Energy from fossil fuels is abundant, prices are low and consumers are becoming more, not less, dependent on cars and other

energy-intensive devices. In many cases, the improvements in energy efficiency will be largely tempered by increasing demand. In the US, which is by far the largest emitter of greenhouse gases in the world, there is a strong vein of scepticism about the scientific evidence concerning climate change, coupled with fears that the Kyoto commitments could do immense damage to the country's economic well-being. The result is an active lobbying campaign to persuade the Senate to block ratification of the climate change treaty. Meanwhile, the measures taken by industrialised countries will increasingly be offset by emissions generated by developing countries. But, whatever the doubts about the impact of emission controls, their impact on energy producers and users will be felt for years to come.

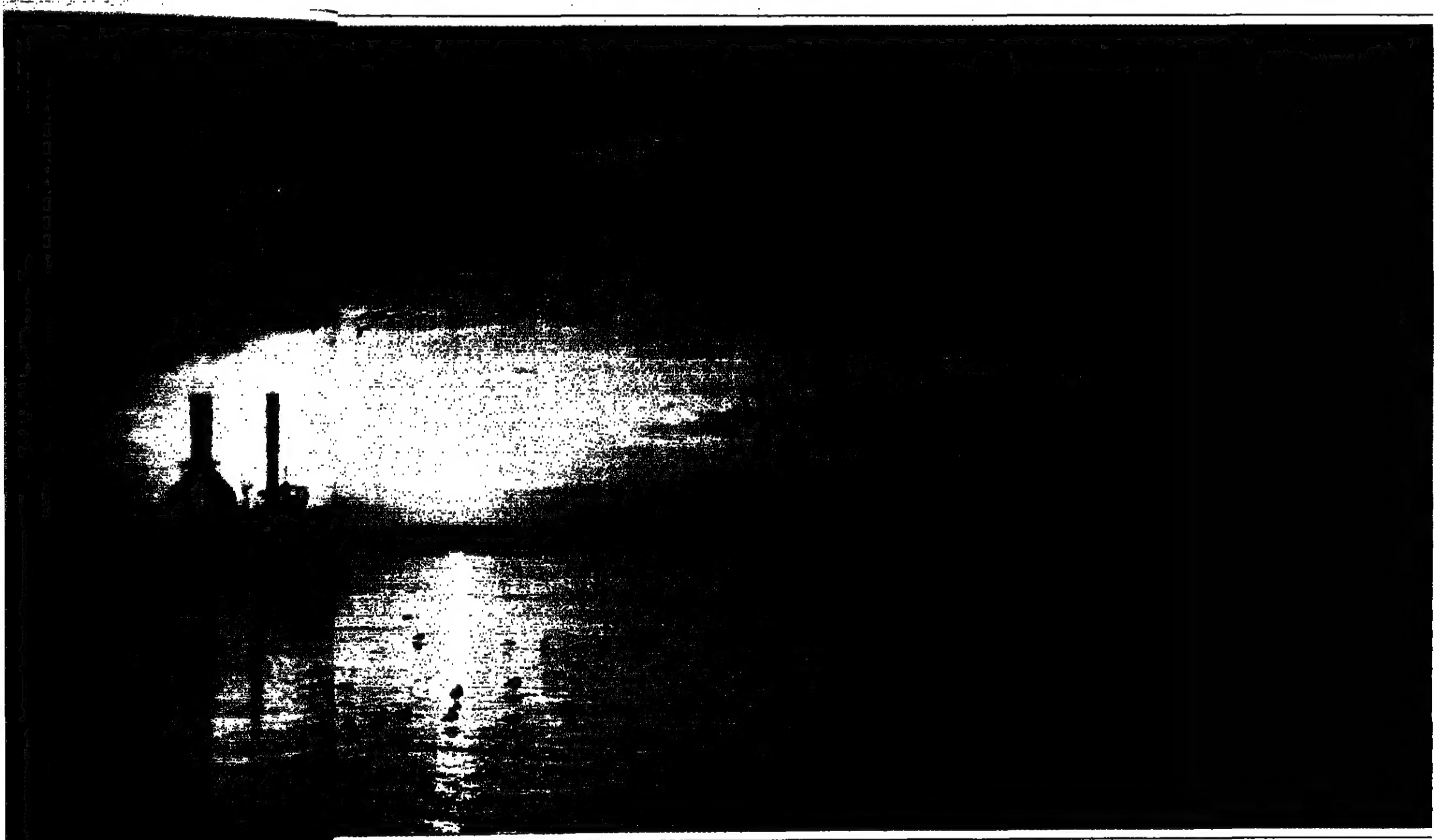
TECHNOLOGY • by Michael Peel

## Tide turns to new horizons

As time runs out on carbon-based fuels the search is on for sustainable alternatives

Hydrogen power would be a scientifically elegant solution to the problem of global warming. Its appeal lies in its theoretical cleanliness: the simplest element reacts with oxygen, releasing energy and producing only water. Hydrogen is just one of a number of energy sources that might be termed the technologies of tomorrow. These are promising potential alternatives to fossil fuels that have yet to receive the publicity given to methods of renewable energy generation such as solar and geothermal power. That could be about to change. The world's car-makers, for instance, are coming to the conclusion that hydrogen-powered fuel cells will produce vehicles that do not damage the environment. Elsewhere, environmental campaigners are arguing the case for well-known ideas they believe have never been exploited to their full potential. In the UK, for instance, Greenpeace is lobbying for renewed research into wave energy amid signs that the government thinks the technique shows promise. In each instance, the proponents of the technologies of tomorrow are working from the premise that the combustion of carbon-based fuels must stop. Even the oil industry has been making contingency plans. Royal Dutch/Shell revealed last month that it was collaborating with Daimler-Benz on research to develop a hydrogen-powered car engine that could match the performance of petrol and diesel-fuelled devices. The cost barriers to achieving this aim are familiar to those who have promoted renewable energy. While hydrogen-powered cars are quieter and 50 times more efficient than conventional vehicles, fuel cells are bulkier and many times more expensive to make than internal combustion engines. However, these issues are being tackled with some success. Ballard Power Systems, a Canadian company, has in the past eight years achieved at least 80 per cent reductions in the size of fuel cells and the cost per unit of power generated. Mercedes-Benz, part of Daimler-Benz, last year unveiled a significant advance - a car powered by hydrogen derived from liquid methanol stored on board. The system eliminates the bulky pressurised storage tanks needed for liquid hydrogen fuel. The Mercedes-Benz team is optimistic. Last year, Jürgen Hubbert, head of passenger car development, predicted that the company would produce a commercially viable fuel-cell powered vehicle by 2005. Ferdinand Panik, head of the company's fuel cell project, says hydrogen power is "the alternative

with the greatest chance of competing with the combustion engine". Greenpeace's arguments for wave power are sustained by a similar conviction that it has recognised an idea whose time has come. It says: "By failing to back wave energy, the UK missed an opportunity to lead the world in pioneering new technology and creating much needed jobs in science and engineering." Greenpeace claims the UK could generate almost half its current electricity consumption from offshore wave devices. Many installations could generate electricity at a cost of less than 5p per kilowatt hour (kWh). That would make wave power competitive with other forms of renewable energy that have enjoyed much greater support from national governments and the European Union. An EU-funded study estimated the following average costs for electricity generated by renewable methods: photovoltaic 32.5 Ecuents per kWh; hydroelectric 8.25; geothermal 7.00; wind energy 5.79 and biomass 5.50. Those rates compare with a minimum cost of about 4.5 Ecuents per kWh for conventional power production. It is not only Greenpeace that has been putting the case for the viability of wave energy. John Battle, energy minister in the UK government, said last year that he did not believe the potential for offshore wave power had been properly explored. The Department of Trade and Industry will shortly produce a report that is expected to recommend a reassessment of the potential of wave energy. The recent burst of activity has prompted Stephen Salter, the inventor of a promising wave energy generation device in the 1970s, to profess that he is "quietly hopeful" about the future prospects of wave power. Perhaps the most encouraging feature of the search for alternatives to fossil fuels is the number of ideas being floated. If hydrogen power or wave energy fail to deliver, there are plenty of captivating concepts waiting to take their place. For example, IT Power, a UK-based company, is about to start a project to harness the energy of marine currents. The company has an EU grant of £500m to build the world's first full-size marine current turbine - essentially an underwater windmill - connected to a national electricity grid. Equally imaginative, and even more bizarre-sounding, are efforts to develop a car powered by the vapourisation of liquid nitrogen. As the nitrogen changes from a liquid to a gas, an increase in pressure drives the pistons of the engine. Even nitrogen's low boiling point of minus 196 degrees centigrade need not prove an insurmountable barrier to exploiting the element at everyday temperatures. After all, hydrogen ceases to be liquid only at a cool minus 253 degrees centigrade.



**L**ast year in South Humber Bank, UK, one of the wonders of technology collided with one of the wonders of nature and something wonderful happened. Nature survived.

The largest combined cycle power plant in Europe was under construction. Unfortunately, it was on a site adjacent to a feeding ground for migratory birds.

Fortunately, the company doing the construction was ABB. You see, ABB is one company that's not only committed to the business of electric power generation, it's also committed to the preservation of the environment.

And it's a commitment that stretches from ABB's senior management all the way through to its subcontractors on the construction site.

Which is why during the months between September and March, construction on the plant, which might have alarmed the migrating birds and prevented them from feeding, was abruptly stopped.

The power plant, which is representative of modern power plant technology (highly efficient with minimal impact on the surrounding environment), was finished only after the birds had completed their annual migration through the area.

A fact that made English environmentalists very happy. Not to mention the birds.



# The future: sources



Ray of sun: the idea of non-fossil fuels providing most of the world's energy needs is now plausible

RENEWABLE ENERGY • by Vanessa Houlder

## Clean power needs will power

Actions must match rhetoric if the world is to move away from fossil fuels

Will the next century be fuelled by renewable energy? The idea of relying on the sun, wind and other non-fossil sources to meet most of the world's energy needs would once have seemed fantastic. Now it is plausible.

"Just as the economic miracles of the 20th century were powered by fossil fuels, the 21st century may be marked by an equally dramatic move away from fossil fuels and the environmental threats they carry," according to the Washington-based Worldwatch Institute.

Several factors are likely to stimulate the use of renewable energies. One is the worldwide effort to stabilise the earth's climate, which will require a reduction in the emissions from fossil fuels.

Another is the improving economic viability of renewable sources. As the technology has improved and volumes increased, the prices of solar power and wind energy have fallen sharply.

That said, they still find it hard to compete directly with conventional energy sources, some of which have

also fallen in price. Moreover, if international demand for energy falls substantially – perhaps as a consequence of trying to curb carbon dioxide emissions – it could inhibit the growth of renewables, by lowering the price of conventional energy, such as oil and natural gas, still further.

Renewable energy is being taken increasingly seriously by conventional energy companies. Royal Dutch/Shell has predicted that the market share of renewable energy resources will grow rapidly between 2025 and 2050, when they could account for half the world's energy needs.

But this growth will be from a small base. The Paris-based International Energy Agency says that renewable energy accounts for only about 4 per cent of the energy needs of its members, which are drawn from industrialised countries. This statistic excludes hydroelectric power on the grounds that the policy issues governing its development differ from those of other renewable sources.

Overall, renewable energy sources, mainly in the form of biomass and hydroelectric power, supply between 15 and 20 per cent of the world's energy demand, the IEA says.

Countries are taking different approaches to renewable energy depending on their climate, geography and resources. There are a number of renewable energy sources to be considered, such as at different stages of development. These range from the traditional practice of burning wood for heat through to advanced processes, such as biomass gasification for electricity generation which is only starting to come on stream.

The policies chosen to encourage renewable energy also vary markedly. Government policy may be influenced by factors not directly linked to energy issues. For example, in some countries, biofuels are subsidised on the grounds that they may help to maintain a country's ability to produce food and maintain rural employment levels. One of the oldest schemes is Brazil's 20 year old price support for ethanol from sugar cane, which is used as an alternative to petrol in cars. In addition to helping cut carbon emissions, this scheme was designed to help support Brazil's sugar cane industry.

The most common approach by governments to stimulate the market for renewable energy by is the use of economic or tax incentives or by introducing guar-

anteed or favourable markets.

For example, many countries attempt to encourage renewable resources using favourable buy-back rates (the tariff obtained by independent power producers for sales of electricity to the grid). Another approach is to offer capital subsidies on the installation of renewable energy systems. One of the most ambitious is Japan's use of market guarantees and tax incentives in a solar rooftop programme launched in 1983.

These schemes, which subsidised half the installation cost to consumers and two thirds of the cost to commercial building owners, resulted in nearly 10,000 homes receiving silicon solar tiles directly to their rooftops by 1997. The programme is credited with helping Japan win around 30 per cent of the world photovoltaic market last year.

Green pricing schemes, in which consumers can opt to pay more for renewable electricity, have proved popular in some – although not all – countries.

Public research and development is another tool, although not one used as extensively as some would hope. Research into renewable energy stands at less

than 9 per cent of energy R&D budgets in industrialised countries, according to the Worldwatch Institute.

Some countries have announced targets for renewable energy sources, which may help raise awareness of renewable energy and co-ordinate decision making. Another government policy that may indirectly have helped promote renewables in some countries is the deregulation of the electricity industry, which has made it easier for independent power producers to gain access to the distribution grid. Conversely, deregulation brings intense competition on short-term electricity prices and high discounts which put projects with high capital costs but low running costs, typical of many renewable sources, at a disadvantage.

Government policy can be unhelpful to renewables in other ways, too. Existing subsidies of conventional fuels, such as coal and nuclear power, may hamper the efforts of renewable energy sources to be cost-effective. Another potential barrier – particularly as renewables become more significant – could be the costs of transmission, grid-connection and back-up capacity.

Much remains to be done. According to the IEA, governments need to invest more in research and development, they need to eliminate subsidies for conventional fuels and they need to ensure that energy prices reflect the environmental costs to society of producing and delivering energy. In short, says the organisation, they need to ensure that their policies match their rhetoric. "To achieve the substantial role expected of renewables in the future, enthusiasm needs to be harnessed to specific action."

### PROFILE

Royal Dutch/Shell & BP

## Renewables find a place in the sun

As oil prices have tumbled this year, those companies promoting alternative energy sources have seen their task complicated even further.

Although none of the leading oil and natural gas companies has announced any formal cutbacks to alternative energy programmes, there is little doubt that some projects that looked viable only last year, when oil prices averaged more than \$19 a barrel, have receded into the distance.

But progress is still being made, say executives, although the worsening economic environment, especially in Japan and elsewhere in Asia, has caused some projects to be cancelled.

Britain's two leading oil companies have adopted different positions in regard to alternative energy sources. Both British Petroleum and Royal Dutch/Shell have made

much of their plans to expand in this area, but their focus differs substantially.

BP has decided to concentrate on solar energy, where the costs of panels are falling steadily as producers move towards larger manufacturing units. Production costs are falling at a rate of 5 to 10 per cent a year, according to executives. The development of thinner films and new, non-silicon panels, promises to deliver further cost savings, thus ensuring that, over time, solar continues to move downward on the cost path relative to other fuels.

Shell, on the other hand, is developing several alternative technologies, in large part because it believes that solar cannot cover all the market opportunities that might arise. "Solar offerings tend to be relatively small in size," says Jim Dawson, president of Shell

Renewables in London. He believes that biomass (the use of trees and other vegetation to fire boilers) and wind power offer the opportunity to invest in bigger electricity generation projects of up to 100 megawatts.

Mr Dawson also contends that solar is not alone in enjoying improved economics. "As other technologies get more attention then their costs will also come down. I would say cost reductions and technical improvements are not unique to solar."

He points to Enron in the US, which is also involved in developing renewable technologies. But, he argues, companies need to focus on a few of the most promising areas because "if you are in all 10 or 12 renewable technologies then you will be weak in everything."

Although solar and other renewable technologies may not be able to compete generally with conventional fuel sources for 20-30 years, both BP and Shell are keen to demonstrate as many current applications as possible. Shell recently installed the world's largest offshore array of solar panels on one of its oil platforms off the coast of Brazil in southeast Asia, a total of 650 panels producing 65kW of "spark-free" power were installed, thus improving the safety of the installation, according to Mr Dawson.

BP points to a new scheme in the Philippines, where 600,000 people living in an area not served by the national power grid will be supplied with solar-generated electricity. BP says solar is also making steady inroads into some high value niche markets, such as powering telecommunications equipment in remote locations. And although it may be some years before it can compete directly with conventional power sources, there are 2bn people around the world who are not served by conventional systems.

Robert Corzine



Up there: Shell and BP have the wind in their sails

### SOCIAL RESPONSIBILITY • by Robert Corzine

## Beyond the bottom line

The industry's commitment to best practice will be tested by low prices

Over the past year or so the phrase "social responsibility" has been added to the lexicon of the international oil industry. But although it is bandied about by chairmen and chief executives at annual shareholder meetings, its meaning for the industry remains ill-defined.

What is clear, however, is that the role of energy companies has become blurred in recent years, as the industry moves into ever more remote or politically complex areas of the world in search of new reserves.

That quest has increasingly put oil companies in conflict with local people and pressure groups. In other cases they have found themselves involved in countries, such as Algeria, where murky political situations threaten to tarnish their corporate reputations.

The social responsibility issue has provoked a range of reactions from the industry. Companies such as Royal Dutch/Shell, the Anglo-Dutch group which has twice in recent years found itself the target of public outrage – first over the planned sinking in 1995 of the Brent Spar offshore platform and, later that year, over its role in Nigeria – has made much of its stand on social responsibility.

So, too, has British Petroleum, which was accused by some of supporting army death squads in the Casan region of Colombia.

This year both companies published detailed reports on the social impact of their

worldwide activities. They have promised even more detailed accounts in future, including independent audits of their wider performance. Other companies are expected to follow suit.

Internal corporate debates over social responsibility have often been intense and especially so within those companies that have experienced public criticism for their activities. In some cases companies have sought outside advice. At BP Sir John Browne, the chief executive, recently commissioned Lord Howe, a former Chancellor of the Exchequer in Britain, to investigate the company's actions in Colombia, as well as to report more widely on the social responsibility issue.

Although most oil companies accept the need for wider consultation when they embark on big projects that can alter whole economies and affect large numbers of people, underlying attitudes differ widely.

Some companies seem genuinely to have recognised the need to play a wider role in society, although it is not always clear whether such policies are embraced throughout a company. Senior executives, such as Mark Moody Stuart, the chairman of Shell, say social responsibility is a logical follow-on from greater corporate awareness of safety and the environment.

But unlike safety and the environment, which lend themselves to technical solutions, social issues are often complex and subtle. They can easily defy the "quick fixes" that appeal to time and cost-conscious oil company managements.

Not surprisingly, many companies remain reluctant to become involved in areas

in which they have little experience. Even those that see a need to be more active often find themselves without the necessary skills to do so effectively.

"Oil companies need two types of people," says one UK executive who has been involved in his company's social responsibility debate. "We've always had the focused industry types but now we also need people who can sit under the trees and talk to locals. Unfortunately it is hard to bring them together."

The lack of skilled people has left an imbalance between policies – which in some companies have been worked out at the highest levels and in almost academic detail – and action.

That imbalance is one reason why sceptics doubt the sincerity of oil industry statements about its commitment to a broader social agenda.

But other factors also explain why there is no common approach to the issue. National and corporate cultural differences play a part in how companies respond to the social responsibility issue. Although it is assumed in many quarters that European oil companies are more "progressive" US companies may be "instinctively" better at recognising the need to involve locals, given their experience in dealing with the wide range of local, regional, state and national authorities and interest groups in the US.

Some executives also wonder whether the issue may prove transient. They note that some widely publicised incidents involving oil companies have been provoked by pressure groups and, thus, may not reflect broader shareholder or public con-

cerns. Others wonder whether they will be penalised by investors for spending money on what some may see as marginal, or even dubious activities.

One of the biggest conundrums facing individual companies is how far they should go in providing services that are normally the responsibility of government. Traditionally, oil companies have confined their assistance to local communities to one-off projects that do not carry with them a long-term commitment. But the failure of many central governments in the developing world to ensure that a portion of oil and gas revenues filters back to the producing regions has caused some oil companies to re-think that approach.

But companies considering a more proactive stance say they have run into practical and political barriers. There are worries that a more proactive approach may put them in conflict with the central government that licenses their activities. Companies also remain wary about extended commitments to specific areas. What happens, they ask, when they want to leave an area or country?

Although it is clear that a strong corporate will can overcome many problems, some observers wonder whether the commitment to social responsibility can survive a prolonged bout of low oil prices. Most find it easier to make cuts across the board and executives admit it is hard to keep social and environmental programmes going in a time of tight budgets. Yet it is the consistent application of social action programmes – not their size in money terms – that leads to success.

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Gas masks pro



## Regional focus: South Asia

PROFILE BG India

## Speed the key to land of opportunity

A year ago, BG, the former British Gas, paid \$50m to buy a 61 per cent share in a privately-owned Indian gas distribution company, Gujarat Gas. With a delivery system of 930km of pipelines, Gujarat Gas sells 700,000 cu m of gas a day to nearly 200 industries, 900 commercial users and around 80,000 domestic customers in India's western state of Gujarat, one of the country's most industrialised states. BG says sales growth has only one constraint: the lack of gas.

BG is hoping that the acquisition of this captive customer base, with its clear potential to grow, will give it a boost in the race to build a liquefied natural gas terminal - and an integrated gas business - in India.

While the heavyweights of the global gas industry are vying to build LNG terminals in India, only a handful are likely to be constructed in the next few years, due to the lack of credit-worthy customers. But with the Gujarat Gas network under its control, BG is confident that its proposed \$500m LNG terminal and pipeline project at Gujarat's Pipavav Port will be one of the projects that gets off the ground.

"Though it needs other clients to make the project viable, company officials say that Gujarat Gas would be a prime potential customer for the 2.5m tonnes of LNG that would come into the terminal each year."

"The strategy is to grow Gujarat Gas by bringing in LNG," says Alan Ross Guy, director of LNG for British Gas India. BG is gunning to be the first company with a functioning LNG terminal in India. Its target date for commencing gas shipments is the fourth quarter of 2001 - the same date set by rival Enron. But, in a bid to get ahead, BG is moving forward without waiting to tie up all its financing.

"We've taken a conscious decision that we are not

going to let financing stand in our way," says Mr Ross Guy.

BG has already put out bids for the huge LNG tanks - the part of the project which requires the longest lead time for completion. Once it has selected the contractor, it intends to quickly give the nod for design and preparatory work on the tanks to start. The company also expects to put out a bid for the front engineering within the next few months and hopes to give formal go-ahead for work to start in April.

While the strategy may seem risky, BG officials say that terminal projects that can prove to investors that they will be early to the market will have the advantage in the competition to secure other credit-worthy customers. "We see the ability to move quickly as one of our key competitive strengths," says Mr Ross Guy.

"Schedule is key." BG is counting on other factors to lure customers as well. The privately-built Gujarat Pipavav Port is viewed as one of the best ports in the world and the Port Trust of Singapore has just acquired a 40 per cent stake in the facility. With a chain of three islands creating a natural harbour, the port can operate year-round without the need for an expensive breakwater, which will give the BG terminal a significant cost advantage over other projects.

In the meantime, Gujarat Gas is expanding its distribution network in anticipation of new gas imports. Since its takeover by BG a year ago, Gujarat Gas has nearly doubled the amount of gas sold in the system - and it is expected to increase by an additional 30 per cent over the next year or so.

The company is investing around \$21m to build a 78km, 18-inch high-pressure pipeline from Hazira to Ankleshwar, which could be used to transport natural gas from the site of the

proposed BG terminal to the Gujarat Gas customer base. Kevin Weir, asset manager of British Gas India, says that Gujarat Gas is also planning to construct branch pipelines to other areas of potentially high demand along the Hazira-Ankleshwar corridor.

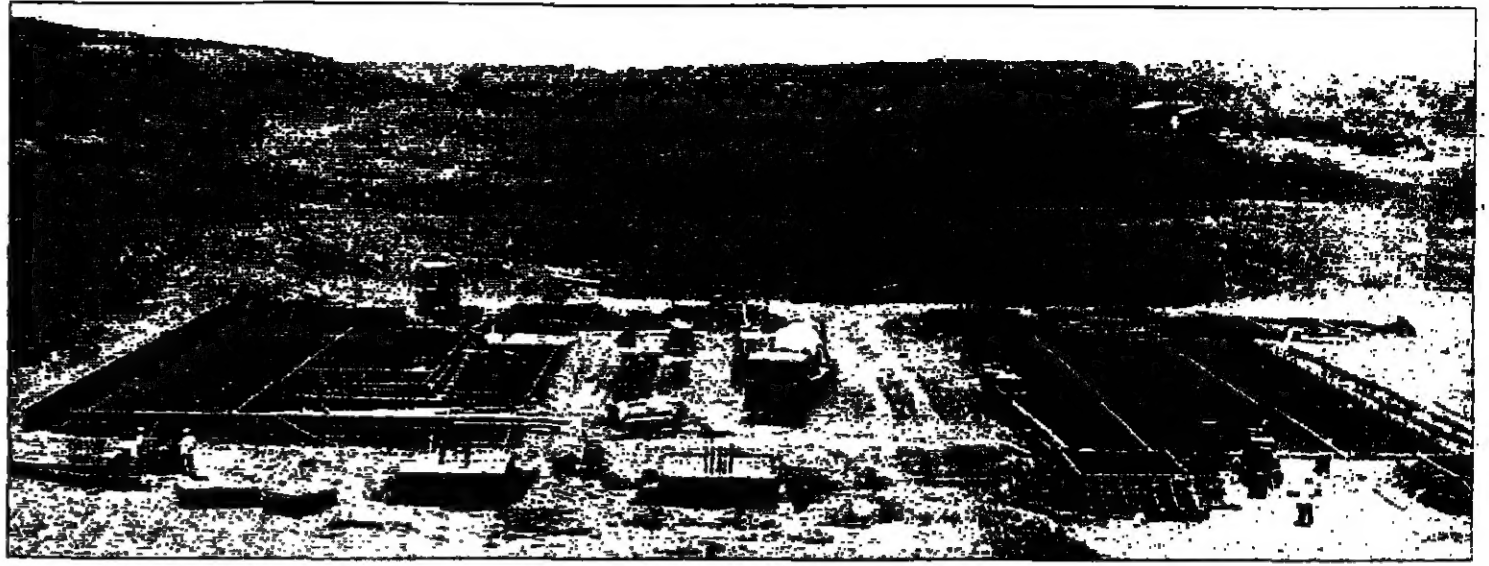
Besides its Gujarat Gas network, BG is counting on one other card to help it push its LNG project through. A year and a half ago, BG pre-qualified to build a power plant at Pipavav but the project was put on hold due to a lack of naphtha. However, once natural gas is being imported into India the project could be viable - as a gas-fired plant - and would be another potential customer for the BG terminal.

BG's foray into gas distribution is not limited to Gujarat Gas. The company has also entered a 50-50 joint venture with the Gas Authority of India (GAIL), called Mahanagar Gas. The venture has been set up to distribute gas to industrial, commercial and residential customers in Bombay and, so far, BG has invested \$57m in a green-field network of high-pressure gas transmission pipelines and low-pressure pipes. The network currently serves around 11,000 residential customers and provides compressed natural gas to around 7,000 taxis. It is expected to be distributing 1m cu m of gas by the end of the year.

As with Gujarat Gas, Weir says the only constraint to growth is the limited supply of gas. BG has envisaged a total investment of \$100m in the project in the next 10 years.

BG has made India, with its huge gas market, one of its focus countries and is considering all possibilities to grow its business. Mr Ross Guy says: "We see India as a land of opportunities."

Amy Louise Kazmin



Power cut: US sanctions against India after its nuclear tests in May brought construction of Enron's Guwahar plant to a halt

As India's demand for energy inexorably rises so does interest and investment in the country by the world's leading energy companies. Now, reports Amy Louise Kazmin all they have to do is find customers credit-worthy enough to make the effort pay

## Insatiable hunger for power

In a country starved of power, India's 650MW Gandhar power station, run by the state-owned National Thermal Power Corporation, currently operates at less than half its capacity.

The reason for this dismal performance is simple; the power station depends on natural gas for its fuel. India's indigenous gas production, of about 25bn cu m is far short of the 90bn cu m demanded by industries and power plants. So the Gandhar power station gets only a fraction of the gas it needs.

India's gas shortage is expected to get worse, although by how much remains a matter of debate. While a government committee has forecast that demand for natural gas will reach 188bn cu m by the year 2006-2007, Anant Bhattacharya, economic adviser to India's state-owned Oil and Natural Gas Corporation, expects it will only reach 140bn cu m by then.

But there is consensus on one point. With domestic gas production likely to increase only to about 40bn cu m - or 70bn cu m according to more optimistic estimates - by 2007, India's demand for gas will far outstrip available domestic supply. That has made India one of the world's most talked about emerging markets for imported natural gas, with most global gas operators - including Royal Dutch

Shell, British Gas, Enron, Total, Mobil, Petronas and Ras Gas - hoping to get a piece of the action.

"Anybody who is anyone in the world of LNG is talking about schemes in India," says Alan Ross Guy, director of LNG for British Gas India.

In the long run, Indian bureaucrats dream of establishing pipelines from the gas fields of Bangladesh, Central Asia and the Middle East straight into India, which would be the cheapest method of supply. But such pipelines are a long way off.

Bangladesh, wary of over-dependence on its giant neighbour, has been unable to reach a political consensus for changing a policy which bars the sale of natural gas to India. And gas pipelines from the west - where there are plenty of willing sellers - would have to run through neighbouring Pakistan, India's arch-rival.

Rajendra Pachauri, director of the Tata Energy Research Institute, believes such pipelines will eventually bring gas to India but not until India improves political and economic relations with its neighbours.

"I'm convinced it will happen," Dr Pachauri says. "But when it will happen, God knows."

Meanwhile, most talk in the industry revolves around setting up costly LNG terminals to receive natural gas

shipped from the Middle East. Multinationals such as Shell, Total, British Gas and Enron all have LNG terminal projects in the planning stages as do Indian companies, such as Reliance and Finolex.

Four state-owned Indian oil and gas companies, have formed a joint venture to establish two LNG terminals in conjunction with Gas D'France. The consortium, dubbed Petronet, is now evaluating bids from seven companies, including Shell, Mobil, RasGas, Petronas and Qatar General Petroleum Corp, to supply LNG and participate in the terminal project.

But for all the enthusiasm, would-be gas importers still have a big hurdle to overcome: a shortage of credit-worthy Indian customers which can act as a base to secure financing for the expensive projects. Most industry analysts, and prospective investors, agree that only a few of the LNG terminals proposed will ever get the financing to go ahead.

"It's going to be a tough act for these people to sign up customers and convince financiers," says an oil and gas industry expert at a leading Indian financial institution. "Many of these projects won't see the light of day."

In other countries, LNG projects have been financed on the strength of long-term

"take-or-pay" contracts with blue-chip government or quasi-government utilities, which promise to pay for the gas whether they use it or not.

In India, though, most prospective gas importers aim to sell to private power producers that are, ultimately, selling their power to state electricity boards. But after years of mis-management and populist power giveaways, the state electricity boards are in no financial shape to stand as guarantors of the complicated gas supply chain.

"If the primary off-taker's finances are not healthy, the whole supply chain is screwed," the analyst says.

Finding private customers for the LNG will not be easy, either. With so many projects now being discussed, potential buyers are unwilling to commit themselves to buy from one scheme. Instead, they are waiting to see whether they might be able to find a better deal later.

Indian companies are also uneasy with making such long-term commitments, having never before seen contracts with such a long duration.

"The Indian market is just not geared up to undertake these contracts," says Mr Ross Guy. Some would-be LNG importers, such as Enron, are planning to use a large portion of the gas

themselves but even Enron is now hoping to lock in other customers to make its terminal viable.

India's government has also done little to make investment in the sector more attractive. Unlike petroleum refineries or power projects, LNG terminals have not been given recognised "infrastructure" status, which would entitle them to a tax holiday. Imported LNG also attracts a tariff of 23 per cent, which prospective importers say would make LNG uncompetitive with fuels such as naphtha that can be imported duty-free.

India's Petroleum Ministry has yet to announce its proposed regulations - which leaves open many key issues, such as whether pipelines will be open to anyone who would ship gas through them.

But while most companies scoff at their competitors' prospects, they say they are confident that their own terminals will be built. Enron, for example, which is planning a 5m-tonne terminal with prospective buyers for the 2.5m tonnes it will not require for its own power plant. And Dr Bhattacharya has no doubt that the planned Petronet terminal will come into being. "Financing should not be a problem as we perceive it," he says. "I am quite optimistic."

PAKISTAN • by Farhan Bokhari

## Gas masks profound weaknesses

Optimism surrounding domestic finds is disguising existing problems

The Hub Power Company on the outskirts of Karachi has been embroiled in acrimonious dispute with the Pakistani government for months. But Hubco is not alone in that as almost every member of Pakistan's private power generation sector is at loggerheads with the government.

The government wants Hubco to slash a tariff which it says is too high while prime minister Nawaz Sharif publicly laments the tariffs promised to another 19 private power companies. All are under pressure to agree to substantial cuts.

While the controversy rages, Pakistan's new gas discoveries have offered an element of hope in the long run, in resolving the dispute with the power companies.

With an eye to the higher cost of imported oil driving up electricity tariffs in years to come, the government has begun assessing the extent to which privately owned thermal power plants can be converted to run on gas, a cheaper alternative.

"Transition to a gas based economy is the way out," says the chief executive of a foreign oil company. "If the transition is made, Pakistan would not only find a way out of the power crisis but, more importantly, tackle its energy crisis."

Senior industry executives and government officials agree that the future of gas is vital to Pakistan's efforts to tackle its energy needs. The stakes for the country, especially as it struggles to stave off a foreign debt crisis, are profound.

Qulrazz Ahmed, secretary of the ministry of petroleum and natural resources, told



Inflated expectations: Indigenous gas may meet 50 per cent of demand but Pakistan is still likely to need to import

an energy conference in Karachi earlier this year that "energy supply is a very serious challenge as the economic survival of the country depends on it".

Although industry estimates vary, senior government officials say that the potential for new gas finds could be as high as 200trillion cu ft, up from the 30trillion cu ft discovered so far. The gas discoveries are important for helping narrow the country's international trade deficit.

Last year, oil imports were valued at approximately \$2bn or almost a sixth of total import value. Government economists say that the figure could escalate to about \$5bn in the next three to five years, unless other fuels, such as domestic gas, are found as substitutes.

Most of the new discoveries are the result of the incentives announced in 1994 when Pakistan liberalised its policy over exploration agreements for foreign companies. "The exploration and discoveries can take up to five or six years," says Nick

Ainsley, finance manager of Lasso Oil. "The 1994 policy made it attractive for companies to come and take a fresh look at Pakistan."

"The industry has found a lot more gas than people expected. It underlines the view that Pakistan is quite a substantial gas province," says TV Higgins, chairman of Shell Pakistan, referring to months of growing activity in the gas sector. "We can now develop the natural gas market."

The government hopes to use the gas for thermal power plants, domestic use and some industrial use. Some officials say that indigenous gas may be able to meet as much as 50 per cent of Pakistan's total energy needs (up from 37.5 per cent at present) if the new reserves are developed.

According to official estimates, transport and power generation consume more than two thirds of Pakistan's imported oil. Conversion of vehicles and power generation by domestic gas can help to cut the oil bill substantially.

It is a simple recipe, in theory, but Pakistan's troubled finances are reason for scepticism. The country is at present trying to stave off a default on its \$43m foreign debt.

Western economic sanctions after Pakistan's nuclear tests in May this year, have made it difficult for the country to repay foreign debt and some bankers are predicting a foreign debt default which would dry up new commercial lending. The implications for private businesses are severe.

"Finding new bank credits to finance exploration activity could be difficult. Lenders argue that with a high risk, the prospects of new gas finds and the promise of large financial returns alone, are not enough to overcome the financial problems," says a foreign banker in Karachi.

Pakistani officials concede that the hopes of large new gas finds may be premature unless backed by foreign technical and managerial skills and finances.

Even if domestic exploration activity is boosted by

more gas discoveries, there will be questions over how long Pakistan can delay plans to lay pipelines for importing gas. "With a population standing at 138m and growing considerably, Pakistan will have to, eventually, import gas," adds the foreign banker.

In recent years, plans for imported gas have revolved around pipelines from the central Asian republic of Turkmenistan, running via Afghanistan, and a pipeline from neighbouring Iran. In recent months, industry executives have become convinced that the Afghanistan project may be delayed considerably due to the prolonged war in that country, leaving the pipeline from Iran as the viable option.

However, as a senior government official in Islamabad says: "The pipeline is a distant option, especially because of the millions of dollars in costs. But we'll have to get down to the drawing board reasonably quickly to plan for the future, when our new reserves start drying up."

## Wary lest their fingers be burned

Less than three weeks after Pakistan carried out its first nuclear tests in May, tensions between the Islamic country and its arch rival, India, were high.

But officials at Islamabad's ministry of water and power were still considering plans to sell electricity to India. For the men at the ministry, power sales to India are a handy way out of the difficulty in tackling the unprecedented crisis caused by near bankrupt state electricity companies.

The state companies say they will run in to loss after paying at least an estimated Rs100b (\$21.8m) for electricity purchased from privately owned thermal power companies during the financial year.

The idea of selling electricity to India is just one of the many proposals put forward to improve the cash flow of state owned companies. It comes as Pakistan struggles to resolve a continuing dispute with the privately owned power companies.

Prime minister Nawaz Sharif's government has ordered investigations on alleged corruption charges against at least six of the 19 private power companies, established under a 1994 power generation policy. That policy promised a tariff of 6.5 US cents per kilowatt-hour of electricity sold to the state owned companies which also own the national power transmission system. In addition, the private power companies were promised that at least 60 per cent of their generated power would be purchased.

But the government's decision to begin the corruption probe, on the pretext that some of the companies bribed government officials to

obtain contracts, has been widely criticised in Pakistan and abroad. The World Bank has urged the government to ensure that the investigations do not affect Pakistan's contractual obligations.

"The World Bank continues to stress that any legal actions against individuals found guilty of corruption should be undertaken with transparency and due process and that such proceedings should remain separate from commercial and contractual issues involving the IPPs (independent power producers)," wrote Mieke Nishimizu, vice president of the bank's south Asia division, in a letter to the government.

Businessmen say that the investigations are prompted by the government's failure to reform the state owned power companies, whose dismal performance is due to large line losses during transmission, widespread inefficiency and corruption.

While the government moves to resolve the issue, it has also announced a new power generation policy to attract fresh investments. Its main difference from the 1994 policy is that it requires investors to promise that

local fuel sources, such as coal, gas and hydel, would be the preferred source to run new plants rather than imported fuels. Equally significant, there are no guaranteed tariffs. Investors will have to sit across the table and negotiate a tariff with government officials.

But the consensus in the business community is that the treatment given to the previous power projects has had such a detrimental effect that new investors will remain wary.

"There is a lack of confidence among IPPs over the changing views of the government. This experience will have a detrimental effect on the new power policy," says Philip Spencer, operations director of the Karachi based Hubco.

While the idea of selling power to India excites many analysts, government leaders concede that it may be a long journey from concept to reality.

"It is not an easy task," says Haseem Siddiqui, junior minister for water and power. "Transporting electricity requires infrastructure. We have transmission problems within our own country, waiting to be tackled."

Farhan Bokhari

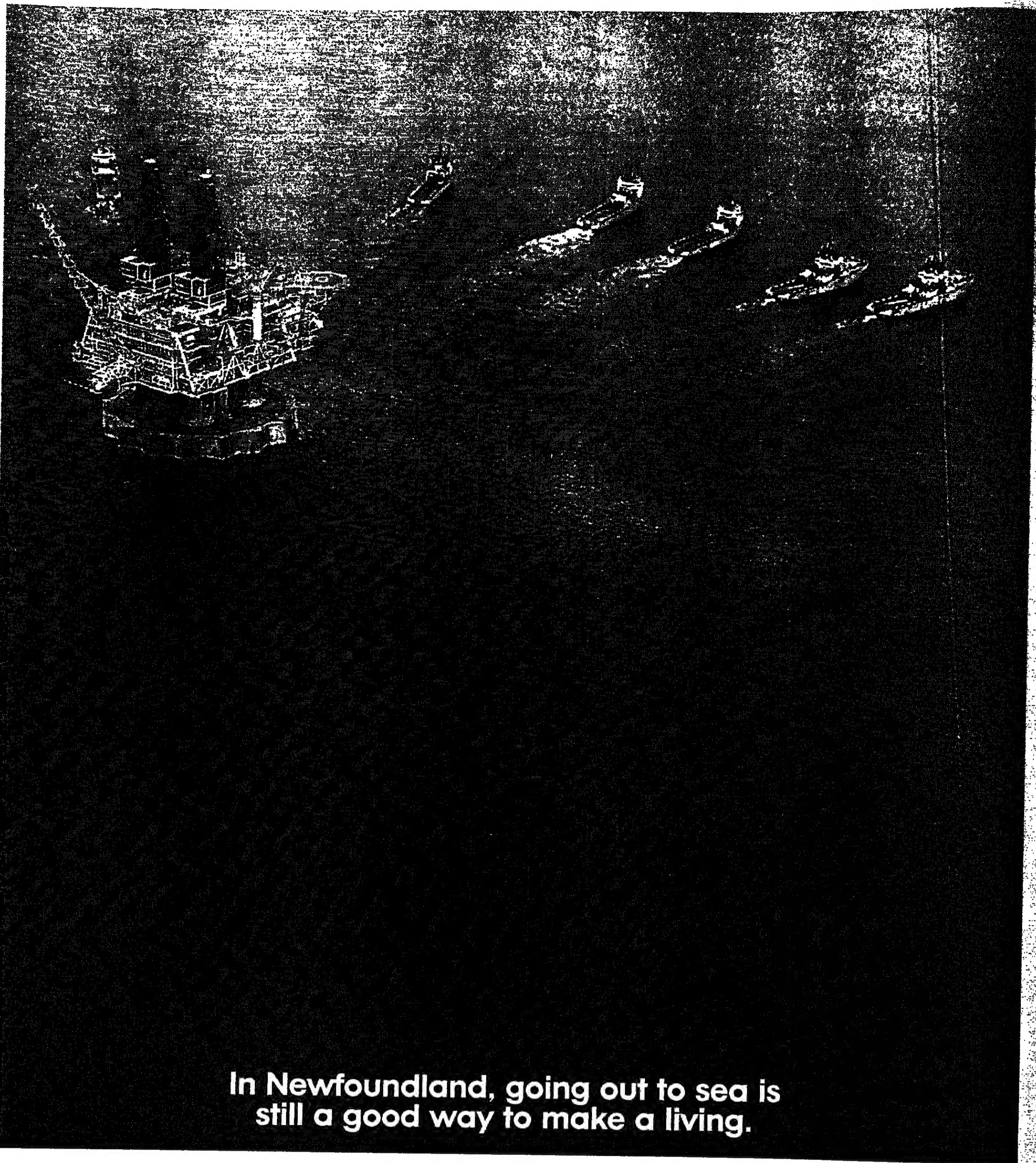
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